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# STATE DEPARTMENT'S MANAGEMENT OF U.S. EMBASSIES OVERSEAS

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State Department's Management of U....

HEARING  
BEFORE THE  
LEGISLATION AND NATIONAL  
SECURITY SUBCOMMITTEE  
OF THE  
COMMITTEE ON  
GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED THIRD CONGRESS  
FIRST SESSION

JULY 13, 1993

Printed for the use of the Committee on Government Operations



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# STATE DEPARTMENT'S MANAGEMENT OF U.S. EMBASSIES OVERSEAS

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TUESDAY, JULY 13, 1993

HOUSE OF REPRESENTATIVES,  
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2154, Rayburn House Office Building, Hon. Glenn English (acting chairman of the subcommittee) presiding.

Members present: Representatives Glenn English and Al McCandless.

Subcommittee staff present: Robert J. Kurz, deputy staff director; Miranda G. Katsoyannis, professional staff member; Cheryl Matcho, clerk; and Jane O. Cobb, Minority professional staff.

Full committee staff present: Julian Epstein, staff director.

## OPENING STATEMENT OF ACTING CHAIRMAN ENGLISH

Mr. ENGLISH. The subcommittee will come to order.

Chairman John Conyers is unable to be with us today due to scheduling difficulties. He has long been concerned with today's hearing issues, and wishes to express his apologies to the witnesses with whom he hopes to meet in the future.

Today we meet to review longstanding and widespread management problems at U.S. embassies overseas. We will examine key problems that have been cited by the Comptroller General and Department of State as high-risk areas or material weaknesses. They are: The recovery of overseas medical expenses in which the Department could be losing up to \$1 million a year; the substantial loss of personal property worldwide worth \$600 million; contracting and procurement valued at \$500 million annually; inadequacy of staffing and training; deficiencies in overseas financial management systems; the failure to enforce overseas housing standards which results in the increased cost to the government; and, continued susceptibility to waste and mismanagement of nearly \$10 billion worth of overseas real estate and construction.

For over 30 years, the General Accounting Office has reported on numerous management deficiencies at our overseas embassies and consulates. At the subcommittee's request, the GAO has conducted field work in 14 countries and collected data from over 80 overseas posts to review the status of the above-mentioned management weaknesses. Much to my dismay, the GAO's investigation indicates that overseas operations continue to be hampered by ineffectiveness and inefficiencies, at a loss of substantial taxpayer dollars.

The State Department's Office of Inspector General has long reported on the problems plaguing our overseas posts, and has offered concrete recommendations on corrective actions that should be taken. Today they will highlight their current concerns on overseas operations with particular emphasis on the high-risk areas that persist. Unfortunately, for the past decade, there has been little hope that long-term solutions would be put in place.

Finally, we will hear from the State Department on their intentions to pay more attention to identifying and correcting chronic deficiencies in their management of overseas operations.

The Clinton administration has signaled early on, the desire to focus on management issues across the Federal Government. Vice President Al Gore's Task Force on "Reinventing Government" has been charged with this responsibility. For too long, mismanagement at the State Department has been tolerated and allowed to flourish.

The American people elected President Clinton because they wanted the "business as usual" attitude of government to stop. We have a clear opportunity to do so, and with fewer dollars available for foreign aid and State Department operations to meet the challenges of a post cold war world, we cannot afford the luxury of ignoring such mundane matters as sound management practices.

I now recognize the ranking minority member of the subcommittee, the gentleman from California, Al McCandless, for any opening comments he might wish to make.

Mr. McCANDLESS. Thank you, Mr. Chairman. I would like to thank our chairman for holding this important hearing in this timely and important area of our present overseas activities and the management problems at our U.S. embassies. It is obvious from the four GAO reports that some serious problems exist and need to be addressed.

With a total of 164 embassies and over 100 consulates scattered around the globe, the task of rooting out these problems is undoubtedly a daunting one for the auditors from the GAO and State Department's inspector general's shop. However, I applaud the effort of these auditors who know that it is critical to stay on top of these issues, expose the problems, and make sure they are addressed appropriately.

Our Federal Government cannot afford to make excuses for the kinds of losses being incurred at our embassies: \$120,000 of missing property from the Mexico City Embassy; \$45,000 stolen from the Embassy in Panama; and \$40,000 in unreimbursed medical costs at the Embassy in Budapest, to name a few. This is not about excessive spending or extravagant excesses. This is wasted and unaccounted for money because of fundamental flaws in the basics of post functions: Management of real estate, office furniture, and medical expenses. It leads me to believe that rather than exceptions, these losses are just the tip of the iceberg.

The GAO report before us today represents detailed audits at 14 of the 164 embassies. Obviously, the State inspector general inspects posts at somewhat higher rates. However, we cannot wait for each individual audit before addressing these systematic problems. The State Department must promptly correct these flawed



management systems and hold each embassy strictly accountable for putting them into place as soon as possible.

Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you, Mr. McCandless.

This morning we have Mr. Frank Conahan, Assistant Comptroller General of the United States. He certainly is no stranger to this subcommittee. He has testified before us on a number of occasions during the past years.

Today, Mr. Conahan is accompanied by Lynn Moore, senior evaluator with GAO's National Security and International Affairs Division.

Our next panelist is Mr. John Payne, the assistant inspector general for auditing both at the Department of State and Arms Control and Disarmament Agency. Mr. Payne is going to be accompanied by Mr. John Meenan, the audit manager.

We are pleased to have you gentlemen with us here today. It is the custom here with this subcommittee and we would like for you to stand and take the oath.

[Witnesses sworn.]

Mr. ENGLISH. Mr. Conahan, we will let you begin your testimony. I might say that without objection, your complete testimony, your written testimony, will be made part of the record.

I hope our witnesses today will feel free to summarize that written testimony.

Mr. Conahan.

**STATEMENT OF FRANK C. CONAHAN, ASSISTANT COMPTROLLER GENERAL OF THE UNITED STATES, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY LYNN MOORE, SENIOR EVALUATOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION**

Mr. CONAHAN. Thank you, Mr. Chairman. We do appreciate the opportunity to be here again. As both you and Mr. McCandless noted in your opening statements, we have been doing work with respect to management by the Department of State over a long period of time. You also mentioned that this subcommittee had asked us about a year or so ago to take a fresh look in a number of areas, and we did that by visiting some 14 embassies and sending a questionnaire to slightly over 100 embassies around the world.

We got a fairly good response rate of close to 80 percent on the questionnaire. So we feel that we have a good current basis for the comments that we will make to you this morning.

We will be touching on matters relating to real and personal property; cashiering; accounts receivable; financial operations, generally; contracting and procurement practices; staffing; and gaps in key administrative positions.

I would like to say a few words about each so we can get to your questions as quickly as possible.

Last year, we issued a report as part of our high-risk series dealing with the management of overseas property; and in it, we talked about the weaknesses that have been observed over a long period of time, these related to lax oversight, inadequate information systems, insufficient maintenance, and poor planning. We reported that many buildings were in poor condition, were continuing to de-

teriorate and that many costly repairs could have been avoided if routine and preventive maintenance had been done.

In our recent work, we found these problems continue. Thirty percent of the embassies reported that they do not conduct annual facility reviews. I think this is a very important internal control in terms of being on top of what needs to be done in terms of maintenance and in order to prioritize what these posts need to do in that regard.

Another continuing problem is that embassies are not fully meeting overseas housing standards. A few years back we issued a report that said quite a few of the housing units overseas were over State Department standards. In 1991, those standards were modified, but our current review shows they are still not in compliance with the modified 1991 standards. They have some ways to go in order to bring that into line.

Weaknesses in personal property management have long been a problem at the embassies, as you noted in your opening statements as well. Our review indicates that although some improvements have been made, and I want to note here I think some improvements have been made in this particular area, that there are some things that really need to be corrected.

Mr. McCandless noted the \$120,000 of property missing in Mexico. That is true. What happened there, I think, which is as important as the missing property, is the fact that the embassy essentially swept that problem under the rug, if you will, for the reason they just could not sort out what had happened there. The records were so bad that there was no way of really finding out who was responsible or why that had occurred.

We found property missing during our visit to Russia, both expendable property which is somewhat understandable since that is usable things that find a way of walking away; but in addition to that, we found nonexpendable property, silverware, China, and crystal, missing from the ambassador's residence. You will recall some years back we held a hearing on that very matter right before this committee. It was a great problem then. It continues.

As part of the questionnaire, a number of embassies reported that they had not fully implemented State's automated, nonexpendable personal property system which again we think is an essential internal control if we are going to get a handle on it.

State's worldwide disbursing and cashiering activities are also at high risk for fraud, waste, and abuse. The weaknesses we identified indicate that State has a long way to go.

For example, in Mexico, we found problems with supervision of cashiers; we found there were inadequate visitations to the consulate posts in order to determine how well those operations were going. We found, for example, an absence of controls or at least inadequate controls over consulate collections totaling about \$15 million annually. Other examples are throughout my statement here.

Another financial control weakness is the failure to adequately monitor the status of travel advances and accounts receivable. You will also recall before this subcommittee several years ago we talked about the general problem of not monitoring travel advances; and the State Department at that time had very, very large balances outstanding for a long period of time. You will also recall,

Mr. Chairman, that the State Department had created false accounts so as to cover up for their failure to collect these balances.

That has been identified by the State Department as a material weakness. They are working on it. They hope to have it cleared up, but it still prevails to some extent.

You mentioned the failure of the State Department to recover medical payments that were made by the embassies overseas. We talked about that in a report a year or so ago, made recommendations the State Department to get on top of it. I don't think they have done very much. I think Mr. Payne's office has done a recent review of that and perhaps will give you some details as to where they stand presently.

I would like to say a word about the overall financial management weaknesses over at the Department of State. This has been an area of concern to us for quite some period of time. We worked long and hard to get the CFO legislation enacted.

I think that agencies generally are attempting to comply with the CFO legislation. I think the State Department is attempting to comply with the CFO legislation but they have a long way to go. There are deficiencies in their headquarters accounting system; and there are deficiencies in their systems they have for overseas posts.

We reported in December on both systems. One thing that struck me in connection with the overseas system is that it really only covers about 55 percent of the transactions. The remaining transactions overseas are covered by an assortment of nonstandard systems the embassies have in place. With that kind of a situation, it is very, very difficult to develop information for purposes of compliance with the CFO legislation, which requires a general ledger and financial statements. They are a long way from that.

We have been reporting this for some time. I would like to hear from the State Department on where they stand on that now.

You mentioned the weaknesses in contracting and procurement. Here again there has been some movement toward correction in this area.

The system that has been put in place where people are certified as contracting officers rather than the systems that they had in the past where people just because they were in the job were contracting officers I think is an improvement. Here again they have a way to go. They need to provide better training.

Though they have certified these individuals as contracting officers, my information is that they still have a long way to go in terms of providing training to those people.

That brings me to the issue of training and staffing. And it is essential, it seems to me, that people in these overseas missions being as far away from Washington as they are need to be well-trained. However, we found that training has not been a priority area for overseas missions. We found that many of the embassies reported that their administrative people had not been trained for a long period of time.

They do not identify very well the training needs; and training is done on an ad hoc, case-by-case basis pretty much. There is a staffing shortage overseas. People have to make a tradeoff continually as to whether to send somebody overseas to cover the position

or hold them back in Washington and give them training. So it is kind of an ad hoc situation.

As I mentioned, there are staffing gaps overseas. My statement shows some adverse effects as a result of those gaps. I don't need to go into them. But the gaps are in general service positions, budget and finance positions, as well as in other positions.

One interesting statistic, I will read it here: Fifteen percent of the embassies responding to our questionnaire reported experiencing significant staffing gaps in the budget and fiscal officer position, and 20 percent in the general services officer position. They are pretty significant gaps.

Let me wrap up by saying that the Department of State certainly has supported agencywide improvements by identifying many management areas as high risk or material weaknesses under the Financial Integrity Act. The Department certainly has taken or plans to take actions to improve management, both in Washington and overseas and some actions being taken here in Washington impact on overseas operations. The embassies themselves to some extent have taken actions to improve management.

For example, the Embassy in Mexico in response to our work did a number of things to enhance personal property controls and to designate a competition advocate which I thought was a good sign of their response to our work. I think the headquarters actions, the overseas actions, the periodic inspections audits by ourselves, by the IG and other studies made of operations are helpful.

But I think there are a number of things we have to think about in terms of whether we are ever going to be able to correct the problems over there.

No. 1, State's efforts to identify areas of vulnerability rely heavily on embassies to assess and report their management controls. I think that that in and of itself is a good management technique. However, we found the reports in many cases were overstated and inaccurate. I think the posts need to be more critical as they perform assessments and more candid as they report results.

A second area which you alluded to and Mr. McCandless alluded to had to do with the fact that the periodic inspections are not as frequent as they need to be in order to stay on top of it. I think audit and inspection is very good; inspection in terms of periodic inspection and audit in terms of taking a look at functions over time; but on the latter, you cannot really ever expect to cover all posts.

And—the audits will never be a replacement or substitute for aggressive management attention in correcting problems.

The third area has to do with rotation of key administrative people overseas. This is a fact of life. We have to live with it. But in the absence of systems in place, that rotation of people adversely impacts on continued good operations.

What we would like to see is that at each post a formal management improvement program be established where people on a continuing basis take a look at what needs to be done, formulate plans to correct them, go about correcting them and then follow up to see things eventually have been taking place.

This would compliment the Financial Integrity Act process. I don't see it as duplicating it in any sense. I think it could run separately and really enhance the overall self-reporting business.

However, to provide a credible framework for overseas improvements, I think State also needs to change its culture overall. As you mentioned, I have been here before this subcommittee over a long period of time. I truly have seen change in the Department of State.

If you want to go back far enough, there was very, very little emphasis on good management practices. That has changed over time. People have come into the Department of State who felt this was an area that needed attention. We had Governmentwide efforts like the Financial Integrity Act, and the CFO legislation.

We have had within the Department of State itself more emphasis on management. At one time, I can recall sitting at this very table talking about the fact that there were no people who came up through the administrative or consular ranks at the senior level. That has changed.

People in those cones are rising to the top. Not as many as in the political or economic cone, but they are rising, have risen. I think that is a sign the Department is focusing on the need to improve management over there.

However, I think post management and Department management will not improve materially until some fundamental improvements are made in their systems. They have to come up with a financial management system. They do not have that. They need information management systems. They don't have that. They need administrative control systems such as controls over real and personal property, cashiering, procurement, all the rest of that sort of stuff.

Until you get these fundamental systems in place which are not impacted by such things as the rotation of people, the shortage of people, you are not going to get where we need to be at the Department of State.

That is my overall recommendation here today, Mr. Chairman. Thank you very much.

[To reduce publication costs, the subcommittee has omitted from the record four reports entitled "State Department: Management Weaknesses at the U.S. Embassies in Panama, Barbados, and Grenada," NSIAD 93-190; "State Department: Management Weaknesses at the U.S. Embassy in Mexico City, Mexico," NSIAD 93-88; "State Department: Need to Ensure Recovery of Overseas Medical Expenses," NSIAD 92-277; and "State Department: Survey of Administrative Issues Affecting Embassies," NSIAD 93-218. Copies of the reports may be found in the subcommittee files or obtained by calling the U.S. General Accounting Office at (202) 275-6241.]

[The prepared statement of Mr. Conahan follows:]

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United States General Accounting Office

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GAO

Testimony

Before the Legislation and National Security Subcommittee,  
Committee on Government Operations, House of  
Representatives

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For Release on Delivery  
Expected at  
10:00 a.m., EDT,  
Tuesday,  
July 13, 1993

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STATE DEPARTMENT

Widespread Management  
Weaknesses at Overseas  
Embassies

Statement of Frank C. Conahan, Assistant Comptroller General,  
National Security and International Affairs Division



Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss our review of the Department of State's management of its overseas embassies. We reviewed management and administrative control systems to determine the extent problems exist and the status of corrective actions. We conducted fieldwork at 14 embassies and obtained additional information from 80 embassies that responded to a questionnaire that we sent to all 104 embassies where State has assigned 10 or more foreign service officers.

State operates embassies and other posts worldwide at an estimated annual cost of over \$1 billion. The embassies support the overseas activities of the State Department and many other U.S. agencies. According to State data, the agency employs about 7,000 U.S. direct-hire personnel and about 40,000 foreign service nationals and foreign national contractors overseas. The embassies manage about \$600 million worth of personal property and procure about \$500 million in goods, services, and lease properties each year. They also help manage U.S.-owned facilities and other real property worth billions of dollars.

#### RESULTS IN BRIEF

State's track record in managing its overseas operations has not been good. For years, we and State's Inspector General have

identified numerous management deficiencies in real and personal property controls, overseas financial management systems, contracting and procurement practices, and training of administrative staff. Many of these deficiencies have been identified by State as material weaknesses or areas at high risk for fraud, waste, and abuse under the Federal Managers' Financial Integrity Act process.

Our review indicates that management weaknesses continue to reduce the efficiency and effectiveness of overseas operations. The weaknesses include continuing problems in controls over real and personal property; deficiencies in controls over cashiering, accounts receivable, and other financial operations; inadequate contracting and procurement practices; non-compliance with standards for security of unclassified information systems; and inadequate training in management controls and frequent staffing gaps in key U.S. administrative positions.

Although State and its embassies have plans to correct management weaknesses through the Financial Integrity Act process, these plans are, for the most part, reactions to problem areas we and the Inspector General have reported on for years. In our opinion, more attention is needed to correct the long-standing management weaknesses at overseas embassies. We believe that management of overseas operations can be strengthened if the embassies adopt a more proactive approach in identifying opportunities for management



improvement and cost reduction and ambassadors and other embassy managers pay more attention to ensuring that solutions are devised and adequate follow-up is provided. Without such a commitment, State's funds and assets will continue to remain unnecessarily vulnerable to fraud, waste, and abuse.

#### REAL PROPERTY MANAGEMENT WEAKNESSES

For many years, we have reported long-standing problems with States's overseas real estate programs that cause them to be susceptible to waste and mismanagement. These programs, which involve government-owned property worth billions of dollars and hundreds of millions of dollars in annual appropriations, are managed by State's Office of Foreign Buildings Operations. Last year, we reported that program management had suffered from four areas of weakness: lax oversight, inadequate information systems, insufficient maintenance, and poor planning.<sup>1</sup> For example, many of the buildings are in poor condition and State Department officials have previously acknowledged that many of the repairs and costs could have been avoided if routine and preventive maintenance had been done. The Office of Foreign Buildings Operations had initiated many corrective actions that showed promise of improving the management of real property. However, some key improvements were still in the initial stages and will take years to implement.

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<sup>1</sup>High Risk Series: Management of Overseas Real Property (GAO/HR-93-15, Dec. 1992).

We concluded that commitment to management reform and oversight of embassy activities was needed if the problems were to be corrected. We also noted that the Office of Foreign Buildings Operations may face obstacles in fully implementing its plans for corrective actions.

In our current work, we found that some embassies are not implementing procedures recommended by the Office of Foreign Buildings Operations for optimizing maintenance resources at overseas embassies. Responses to the questionnaire indicated that about 30 percent of the embassies do not conduct annual facility surveys of government-owned and long-term lease facilities and about 10 percent do not have a preventive maintenance program. Most embassies have not prepared an annual inspection summary report, which is a key management tool for the embassies to use in developing long-term facilities maintenance objectives and identifying budget requirements. Inadequate maintenance of overseas properties has been a long-standing deficiency in State's overseas operations, due in part to the lack of compliance with policies and procedures.

Another continuing problem is that embassies are not fully meeting overseas housing standards. In 1989 we reported<sup>2</sup> that one of every three of the embassy housing units in the seven countries we

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<sup>2</sup>State Department: Management of Overseas Real Property Needs Improvement (GAO/NSIAD-89-116, Apr. 13, 1989).

visited was overstandard. In response to the problem, State changed the standards in June 1991. Now, 2 years later, embassies responding to our questionnaire estimated that, on average, almost one out of five housing units currently exceed the 1991 standards. Sixty-two percent of the responding embassies now estimate that it will take at least 2 more years to be in full compliance with the 1991 standards.

#### WEAK CONTROLS OVER PERSONAL PROPERTY

Weaknesses in personal property<sup>3</sup> management have long been a problem at embassies. For a quarter of a century, we and the Inspector General have identified serious deficiencies. In 1983, State first reported personal property management as a material weakness under the Financial Integrity Act process. In 1987, a report by the Committee on Government Operations,<sup>4</sup> based on a study by this Subcommittee, stated that despite repeated promises of corrective actions, State's management of personal property remained unsatisfactory. Our review indicates that although some improvements have been made, significant management deficiencies continue at many embassies.

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<sup>3</sup>Personal property includes furniture, equipment, supplies, appliances, and machinery and refers to all property not otherwise classified as land, land improvement, buildings, and structures, which are referred to as real property.

<sup>4</sup>The State Department's Management of Nonexpendable Personal Property: Long-Standing Deficiencies Remain Uncorrected (Nov. 1987).

For example, we found that in less than 2 years, the Embassy in Mexico lost office equipment, household furnishings, and other nonexpendable personal property valued at \$120,000.<sup>5</sup> We noted that although the magnitude of the losses suggested the possibility of theft or malfeasance, the Embassy essentially "swept the problem under the rug" because its records were so poorly kept that it could not identify how or where the items were lost or which employees should be held responsible. The Embassy also did not report the missing property to State, as required by Department regulations.

Control weaknesses at other embassies further indicate that State needs to give more attention to personal property management:

- During a 1992 inventory, the Embassy in Russia could not account for about \$19,000 in expendable property. The shortages were not reported to the property survey board for action. In addition, nearly \$14,000 in nonexpendable property, such as silverware, china, and crystal, was missing from the Ambassador's residence based on inventories conducted between 1989-91.
- Examples of weaknesses at the Embassy in Panama have included  
(1) lack of quarterly verifications of inventory records,

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<sup>5</sup>State Department: Management Weaknesses at the U.S. Embassy in Mexico City, Mexico (GAO/NSIAD-93-88, Feb. 8, 1993).

(2) inadequate separation of duties among property management personnel, (3) long-standing difficulties in implementing State's automated nonexpendable personal property system, (4) identification of property valued at \$74,000 during the 1991 inventory that was not in the Embassy's records, and (5) loss of over \$90,000 of property in the 1990-92 time period.<sup>6</sup>

-- Inadequate controls at the Embassy in Grenada have resulted in the accumulation of furniture, vehicles, and other items in excess of needs. Although the Embassy has only three U.S. staff, it had six vehicles and its warehouse contained 49 household chairs and 29 tables.

These are not isolated problems. In response to our questionnaire, 15 embassies acknowledged inventory shortages in excess of 1 percent of total nonexpendable inventory, which is the threshold set by State, above which formal action by property survey boards is required. Eleven embassies reported that they have not fully implemented State's automated nonexpendable personal property system. State first identified inadequate personal property management as a material control weakness in 1983 and its original target date for corrective action was 1989. State now plans to complete corrective actions, such as implementing necessary

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<sup>6</sup>State Department: Management Weaknesses at the U.S. Embassies in Panama, Barbados, and Grenada (GAO/NSIAD-93-190, July 9, 1993).

policies and procedures and instituting a worldwide automated equipment data base, by 1995.

WEAK CONTROLS OVER CASHIERING,  
ACCOUNTS RECEIVABLE, AND  
OTHER FINANCIAL FUNCTIONS

State's worldwide disbursing and cashiering activities are also at high risk to fraud, waste, and abuse. Billions of U.S. dollars and foreign currency equivalents are vulnerable, including cashiering operations under the purview of U.S. disbursing officers. This material weakness was first reported by State in 1984 and the target date for corrective action has slipped from 1990 to 1994. The cashiering weaknesses we identified indicate that State has a long way to go in overcoming control problems overseas. For example, at the Embassy in Mexico, we found a failure to ensure cashier supervisors at constituent consulates had completed training, a lack of systematic supervisory visits to the consulates to ensure the integrity of cashiering operations, and inadequate controls over consular collections totaling about \$15 million annually.

Other examples of weaknesses include (1) a failure to conduct monthly verifications of the cashier account in Jamaica and discrepancies in financial documentation totaling more than \$100,000, attributed to communication problems between the Embassy and State's Regional Administrative Management Center in Mexico

City;<sup>7</sup> (2) only partial fulfillment of the requirement for monthly verifications of cashier accounts in Russia and Barbados and a lack of proper verifications at the Embassy in Grenada; (3) inadequate verification of subcashier accounts at Embassies in Russia, Turkey, and Panama; and (4) inadequate control over cashier receipt forms at some embassies. Control weaknesses continued at the Embassies in Mexico and Grenada even after diversions or thefts of funds had occurred.

Another financial control weakness is the failure to adequately monitor the status of travel advances and accounts receivable. For example, the Embassy in Moscow has several thousand dollars in unliquidated travel advances, and until recently, records were insufficient to determine if the advances required follow-up to ensure repayment. Efforts by current Embassy officials to clear these accounts indicate that in some cases employees left the Embassy without paying their outstanding balances. The Embassy's records on current accounts receivable are improved over prior years, but they still contain inaccuracies. Furthermore, several overdue accounts are substantial. For example, a July 1992 charge of \$576 for personal phone calls made by a contractor had not been collected as of June 1993.

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<sup>7</sup>Several Latin American posts responding to our questionnaire indicated that they were dissatisfied with the financial management support services provided by the Center in Mexico City.

Recovery of Medical Payments Due to the Government

A significant accounts receivable issue facing overseas embassies involves State's payments for overseas medical services. At State headquarters, the Office of Medical Services, which is responsible for the overseas health program, does not track overseas medical expenses to determine whether medical insurance benefits are claimed or collected. In addition, State's financial management systems lack an accounts receivable capability to ensure such payments are collected. State data indicate that (1) 15,000 overseas U.S. citizen employees and dependents are eligible for medical expense payments and (2) expenses paid and potentially recoverable total about \$1 million annually. Clearly, the government may be losing significant amounts of recoverable medical expenses because of inadequate procedures for tracking and recovery. In addition, inadequate embassy and central systems create opportunities for employees to receive and keep payments from medical insurance companies for medical services that the government paid for.

State authorizes and approves payment for inpatient medical care and related outpatient treatment of eligible overseas U.S. citizen employees and their dependents. Employees and dependents who have medical insurance are required to file claims with their insurers to recover allowable medical expenses that the government has paid and remit the insurance payments to the government. Last year, we



found that State did not have reasonable assurances that it was recovering the medical insurance benefits payable to overseas employees and dependents for medical expenses paid by the government.<sup>8</sup> The lack of control is due to inadequate embassy procedures and the lack of centralized State accounting and monitoring systems. For example,

- Medical payments totaling over \$17,000 for an employee at the Embassy in Argentina were made without sufficient records to indicate whether the employee had sought reimbursement from his insurer.
- Medical payments totaling over \$40,000 for four employees at the Embassy in Hungary were made without sufficient tracking and follow-up. The Embassy directed the employees to file claims, but because the employees had left the Embassy or left shortly after they had been requested to file a claim, the Embassy did not know if the employees had filed claims, received reimbursements, or remitted the reimbursements to the government.
- Nineteen individuals at the Embassy in Russia received authorization for government payments during December 1990 to September 1992. However, Embassy officials said that their

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<sup>8</sup>State Department: Need to Ensure Recovery of Overseas Medical Expenses (GAO/NSIAD-92-277, Aug. 7, 1992).

records are insufficient to determine what amounts were paid by the Embassy, if employees or dependents made claims from insurers, if reimbursements were received, or if the reimbursements were returned to the government.

- State paid for medical treatment of several employees and their dependents stationed in the Dominican Republic between October 1990 and July 1992, but the Embassy did not have a system to identify the amounts paid and ensure that these employees and dependents filed claims with their insurance companies and deposited any reimbursements with its cashier.

We recommended that State develop systems to identify and report on overseas medical expenses paid, claims filed, and amounts reimbursed to the government. State agreed with our recommendation, but to date no corrective action has been taken.

#### Overall Financial Management Weaknesses

To a large extent, embassy difficulties in exercising adequate financial controls are directly linked to the long-standing inadequacies in State's financial management systems. In 1983, State first reported its financial systems as a vulnerability under the Financial Integrity Act process. Last year, we reported that (1) overall, the financial systems still did not meet applicable accounting requirements, (2) staff were often inadequately trained

or not fully qualified, and (3) overseas systems were obsolete.<sup>9</sup> State now estimates that corrective actions on the financial management systems will not be completed until 1999 -- 6 years from now and 16 years after State first reported the problem.

Responses to our questionnaire further illustrate how fundamental some of the problems are and how they affect the embassies' ability to effectively manage their financial operations. About one-third of the embassies indicated that they were dissatisfied with the ability of overseas financial management systems to provide timely information and quick financial updates, and over one-half viewed the systems as inadequate for generating nonstandard, ad-hoc financial reports needed by the embassies. One embassy in Europe noted that the financial management system produces reports related to appropriation accounting but not the type of reports the embassy needs to perform cost analyses.

Because of system weaknesses, embassies typically use and rely on their own unofficial financial data. Developing meaningful summary data from the embassy data is impeded because each embassy prepares its data using different formats and methodologies. This reduces the integrity and accuracy of overseas financial operations. Over 90 percent of the responding embassies said they use unofficial "cuff records" to assist in managing their operations, and about

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<sup>9</sup>Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9, Nov. 13, 1992).

one-half said that these unofficial records are essential to meeting their financial management needs. In addition, some embassies reported that they do not reconcile the unofficial and official data on a regular basis, or at all.

#### CONTRACTING AND PROCUREMENT WEAKNESSES

State's overseas contracting and procurement system has also been vulnerable to fraud, waste, and abuse for years. The procurement process was identified by State as a material weakness in 1987 based, in part, on our prior reports. In January 1991, State's Inspector General reported a general failure of overseas personnel to follow procurement regulations and other serious deficiencies.<sup>10</sup> In our October 1991 report to this Subcommittee, we concluded that State's overseas procurement system remained vulnerable<sup>11</sup> and stated that State had initiated limited actions to improve internal controls, but these actions were not fully implemented and some would not be completed for years.

Since 1991, State has made progress in improving its overseas procurement practices so that they more closely conform to good management principles and legal requirements. However, our review indicates that weaknesses continue, including the lack of full

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<sup>10</sup>Overseas Procurement Operations (State Department Office of Inspector General, 1-PP-004, Jan. 1991).

<sup>11</sup>State Department: Status of Actions to Improve Overseas Procurement (GAO/NSIAD-92-24, Oct. 25, 1991).

compliance with competition in contracting guidelines and procedures, delays in implementing State's automated worldwide procurement information system, and the lack of training for procurement personnel. Thus, the procurement function at many overseas embassies remains unnecessarily exposed to fraud, waste, and abuse.

For example, a number of embassies do not have effective competition advocacy programs. According to State policy, competition advocates at each embassy are to promote full and open competition in contracting, encourage acquisition planning, and provide a formal mechanism for the review and approval of justifications for restricted competition. At some of the embassies we visited, officials could not identify the competition advocate. Only 58 percent of the embassies responding to our questionnaire reported having a competition advocacy program.

The lack of adequate competition advocacy programs has contributed to the failure of some embassies to fully compete or review their contracting actions and prepare and retain required documentation in contract files to justify limited competition. For example, we found there was insufficient competition for some contracts over \$25,000 at the Embassies in Mexico and Panama. At several embassies, contract files contained insufficient evidence that the minimally suggested three solicitations were made for purchases under \$25,000. Lack of advance acquisition planning is another

weakness that has affected overseas operations for some time. Nearly 40 percent of the embassies responding to our questionnaire indicated that they did not prepare formal acquisition plans for fiscal year 1992.

Another issue has been the lack of an automated procurement information system to meet federal reporting requirements and manage procurement activities. In 1989, State acknowledged that the lack of a worldwide data base limited its management capability and increased the vulnerability of procurement operations. Although State established a worldwide data base system in 1991, almost one-third of the embassies responding to our questionnaire said that they had not fully implemented the system. Embassy officials cited software problems, the lack of training and expertise, and other reasons for not implementing the system. In addition, many officials believe the system is not useful for management functions and, therefore, are not committed to using it. Frustrated at the lack of an automated State system for managing day-to-day procurement actions, embassies, such as the one in Argentina, have developed their own software systems to monitor pricing and purchasing decisions. However, some embassies such as the Embassy in Turkey continue to record procurement actions on a manual log that makes management oversight difficult.

As part of the Financial Integrity Act process, State first identified weaknesses in the procurement process as a vulnerability

in 1987. Weaknesses identified included the lack of training for contracting officers, inadequate acquisition planning, and the lack of a worldwide procurement data base. These weaknesses diminish the Department's effectiveness in managing procurements worldwide, increase the potential for legal problems, and reduce accountability. State's original target date for corrective action was 1991 but it is currently 1993.

#### WEAK CONTROLS OVER INFORMATION SYSTEMS

Another problem area is inconsistent adherence to State's security standards for unclassified automated information systems. These standards were adopted in 1985 to help secure proprietary information and protect funds, supplies, and materials. We believe that adequate control over automated information systems is also important to counter the threat of terrorist and hostile intelligence activities. Weaknesses we identified at different embassies include a failure to formally designate an information system security officer, a lack of formal training for responsible officers, and a lack of evaluative assessments of system security. State's evaluations of computer security at some embassies have identified significant weaknesses, increasing the vulnerability of operations to the misuse of sensitive data.

TRAINING AND STAFFING ISSUES

Having well-trained staff at overseas embassies is essential to efficient operations. However, we found that staff responsible for key administrative functions have not received necessary training. For example, the supervisory general services officers at the Embassies in the Dominican Republic and Mexico were responsible for contracting and procurement, but they had not received any formal procurement-related training for over 10 years. Several respondents to our questionnaire also indicated that officers in administrative positions have not completed basic State courses for more than 10 years. Nearly 60 percent of the embassies said that they do not regularly identify the training needs of foreign service officers. State's personnel system has been criticized for years as being unresponsive to the needs of the Department for improving its management capability.

Almost 20 percent of the embassies responding to our questionnaire reported that they did not identify, on a regular basis, the training needs of their foreign national staff, even though embassies are highly dependent on such employees for administrative management functions and for ensuring continuity of operations when U.S. staff rotate. Although most questionnaire respondents indicated that their embassies tried to address the training needs of foreign nationals, a significant percentage indicated that the amount of formal training received by foreign national staff has



been insufficient. Embassies also reported significant deficiencies in formal management training for real property, including maintenance, personal property, and procurement functions.

Reliance on foreign service national employees for procurement and contracting functions shows how deficiencies in training of these employees can affect embassy operations. We found that foreign service national employees are typically responsible for important steps in the contracting process and that they often perform these duties without sufficient formal training. During our visits to many embassies, we found that the formal training needs of foreign service national personnel having contracting and procurement responsibilities were not being met. Over one-third of the embassies responding to our questionnaire viewed the amount of formal training received by foreign service national personnel as being insufficient to prepare them to perform their contracting and procurement duties.

Embassies also experience frequent staffing gaps in key U.S. management positions, reducing their ability to exercise controls, as the following examples show.

- Building maintenance suffered because of staffing gaps of 6 months or more in two general services officer positions at the Embassy in Turkey.

- According to the Deputy Chief of Mission at the Embassy in Russia, staffing gaps of more than four months in budget and fiscal, and general services officer positions, combined with a general lack of a professional administrative support workforce, have contributed to weaknesses in financial, property, and other controls.
- Staffing gaps in budget and fiscal, and general services officer positions at the Embassy in Poland have made it difficult to provide services to the growing number of non-State personnel.
- As a result of a staffing gap of over 6 months in the budget and fiscal officer position in Barbados, cashier verifications were not conducted.

Fifteen percent of the embassies responding to our questionnaire reported experiencing significant staffing gaps in the budget and fiscal officer position, 18 percent in the personnel officer position, and 20 percent in the general services officer position. According to embassy responses, the staffing gaps caused delays on some critical tasks, forced staff to assume responsibilities for which they were not trained, and compromised embassies' ability to exercise control functions. The staffing gap problem is compounded by State's overall shortage of skilled foreign service administrative staff overseas. First reported as a material

weakness in 1988, State does not anticipate completing corrective action to address the need for more skilled administrative staff until at least 1996.

Our field work and embassy responses to the questionnaire identified other personnel-related issues affecting overseas operations. For example, State, through its embassies, has entered into thousands of contracts with foreign nationals for a variety of services such as gardening, accounting, maintenance, and security. At some embassies, we found practices that were inconsistent with State contracting policy such as not formally certifying the continuing need for contractors before extending contracts, having contracts for 3 years instead of 1 year, and using contractor personnel instead of direct-hires.

Embassies reported that they are frequently experiencing difficulties in supporting other U.S. agencies. Growth in the overseas presence of non-State agencies over the last ten years has added to embassies' management workload. For example, over 75 percent of the embassies responding to the questionnaire reported that the work load of State personnel in support of other agencies had increased either moderately or greatly in recent years. Ten embassies indicated that the current process for controlling the growth in overseas staffing (National Security Decision Directive Number 38) was not an effective tool for embassy management. We

are currently reviewing this and related overseas staffing issues for this Subcommittee.

STATE'S EFFORTS TO DEAL  
WITH MANAGEMENT PROBLEMS

State has supported agencywide improvements by identifying many management areas as high risk or material weaknesses. State has taken, or indicated that it plans to take, actions to improve management, some of which have direct impact on improving overseas operations. For example, State established a central Property Management Office to direct and oversee actions to improve management of personal property and initiated a system to grant procurement authority only to those overseas officers with the appropriate experience and training. To improve overseas facilities maintenance, State's Office of Foreign Buildings Operations expanded its maintenance assistance to overseas embassies and established two maintenance assistance centers in Europe and Washington, D.C. Responses to our questionnaire indicated a high level of satisfaction with the maintenance services provided by all three organizational units.

Individual embassies have also taken actions to improve management. The Embassy in Mexico, in response to our work, enhanced personal property controls, reconstituted its housing board to comply with standards, and designated a competition advocate to ensure competitive contracts. Embassies responding to our questionnaire

also identified a wide range of actions designed to ensure competitive quotes for small purchases, reduce overtime and number of contractors, cross-train foreign service national personnel, cut energy and telephone costs, and sell high-cost properties and obtain less costly leases.

Headquarters oversight and management improvement efforts, embassy initiated actions, and periodic inspections and audits are helpful. However, for the following reasons, we are not convinced that current actions can correct the long-standing management problems at overseas embassies.

1. State's efforts to identify areas of vulnerability at overseas locations rely heavily on embassies to assess and report on their management controls. For example, each year, embassies are required to prepare a statement of the adequacy of management controls. In addition, embassies conduct an internal control risk assessment about every three years. However, we found that some of the statements and assessments overstated the quality of control systems or were inaccurate. For example, the statement of management controls prepared by the Embassy in Mexico in 1991 contained some inaccurate information on the controls over cashiering. We also found that the Embassies in Panama and Barbados had overstated the competition sought on contracts and the controls of property.

Embassies need to be more critical as they perform self-assessments and more candid as they report results.

2. Embassy inspections by the Office of the Inspector General occur about every 3-5 years, and audits of specific functions do not typically cover all embassies. Furthermore, in some cases, embassies have in the past promised to take corrective actions recommended by the Inspector General but subsequently failed to fully comply. As a result, even though the inspections and audits are useful, they can not replace aggressive management attention to correcting problems.
3. Frequent rotation of key administrative staff makes it difficult for an embassy to maintain continuity in its efforts to improve management practices. This is particularly true when embassy initiatives are informal or poorly documented. Furthermore, some embassies neglect key control functions due to staffing gaps. For example, the Embassy in Barbados conducted less than one-half of the required monthly verifications of its cashier accounts due to gaps in filling the budget and fiscal officer position.

We believe that each embassy needs to adopt a formal management improvement program. Under such a program, each embassy would periodically identify those areas of management that need attention, develop formal corrective action plans, and ensure

follow-up on deficiencies. Full documentation of the management problems, solutions, results, and need for follow-up actions should help incoming managers and administrative staff to ensure program continuity. To complement the actions taken as part of the Financial Integrity Act process, management improvement should be an ongoing process whereby each embassy continually strives to improve its management controls. For example, regular and periodic assessments of progress on management problems and issues would help embassies to correct weaknesses before they result in serious loss or waste.

To improve the chances for program success, ambassadors and other embassy managers need to provide close and regular attention to the program. State should encourage ambassadors to take a personal interest in improving embassy management and administrative functions. To provide a credible framework for overseas improvements, State also needs to change its organizational culture, which in the past has not adequately emphasized good management practices. Such a change would require a formal display of top management's commitment and support for improved management controls.

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This concludes my prepared remarks. I will be happy to answer any questions that you may have.

(711030)

Mr. ENGLISH. Mr. Payne.

**STATEMENT OF JOHN PAYNE, ASSISTANT INSPECTOR GENERAL FOR AUDITS, DEPARTMENT OF STATE, ACCOMPANIED BY JOHN MEENAN, AUDIT MANAGER**

Mr. PAYNE. Many of the areas I will discuss will sound similar to the findings Mr. Conahan just presented, because the results of our work have been similar. I would like to focus on seven categories of management problems identified by the subcommittee, which my office has reviewed and reported on. The categories include personnel, overseas medical claim reimbursements, contracting and procurement, real property management, personal property management, worldwide disbursing and cashiering, and financial and accounting systems.

As you know, the Department has not been shy in acknowledging its problems in these areas. It has reported six of them as areas of material management control weakness. In addition, we have reported three of these areas in our semiannual reports as major problems of the Department and three are on the Office of Management and Budget's [OMB's] high-risk list.

In spite of all this visibility, the Department's ability to address these problems has been slow and disappointing. For example, the Department's financial and accounting system was identified as a material weakness in 1983 and currently has a projected correction date of 1999, 16 years later.

A common problem among the State Department programs we have reviewed overseas is irregular staffing patterns resulting in key embassy positions remaining vacant for months. Put simply, the Department does not have sufficient employees to fill all of its positions in Washington and abroad. The shortage of administrative personnel overseas has been acknowledged as a material weakness since 1988. Most gaps occur during the transit or training of employees whose positions are not covered by overlapping replacement. Further, the grade levels and skills required by the positions do not always match those of the employees available to fill them.

The lack of adequately trained personnel overseas is a prevalent personnel shortcoming that plagues the Department. We have found inadequately trained staff occupying key positions at embassies we have audited and inspected. The need for more formal training is aggravated by the practical problems involved in transporting a far-flung work force to a regional or headquarters training facility. The nature of the foreign service with about 270 overseas locations does not readily offer traditional training opportunities.

There are also serious problems in our foreign employee compensation and retirement systems.

The Department has done a poor job of tracking and collecting insurance reimbursements owed by health care insurance companies and employees. In addition to a lack of management oversight at headquarters and posts, the current system lacks incentives for posts or employees to follow through in filing claims and reimbursing the Government. In some cases, employees may be keeping the insurance claim payments rather than reimbursing the Department.



As a result, we estimate the Department's losses to be between \$400,000 and \$800,000 per year. It is impossible to really determine how much was spent, reimbursed, and owed collectively or individually due to the Department's poor accounting data and lack of a system capable of tracking the hospitalization expenditures and reimbursements.

Deficiencies in the Department's domestic and overseas procurement process have been included as a material weakness since 1987 because of lack of a certified procurement system, the lack of training for key personnel, weaknesses in acquisition planning and contract administration, and the lack of a worldwide procurement data base.

The Department manages about 2,200 Government-owned and long-term leased Government facilities with an estimated value of \$8 billion to \$10 billion. Rehabilitation and maintenance of these properties has been identified as a material weakness since 1988 and as an OMB high-risk category since 1990. We have also identified it as a major problem in our semiannual reports. The deterioration of overseas buildings is attributed to the lack of professional capabilities at the post level, the lack of systematic maintenance and rehabilitation programming and inadequate funding.

Personnel property management has been identified as a material weakness since 1983 and our audits and inspections have consistently revealed significant problems in this area at posts overseas. The problems resulted largely because of shortcomings in policies and guidance, noncompliance with existing regulations, and inadequate training. Some of the examples include significant discrepancies between property records and physical inventories, including missing property; inadequate training for employees performing property management functions; and excessive quantities of property on hand.

The Department has reported disbursing and cashiering as a material weakness since 1984 and estimates it will not be corrected until 1994. The problem exists because disbursing officers have been unable to reconcile their Treasury budget clearing accounts and local currency banking accounts and have been remiss in exercising oversight of the cashiering functions under their purview. Disbursing office accounts are currently \$15 million out of balance with Treasury.

Cashiering operations remain susceptible to embezzlement. Cashier thefts have often resulted because cashier supervisors have not performed required verifications or have performed them incorrectly or because they failed to follow prescribed procedures.

Developing adequate financial and accounting systems has been an elusive goal pursued by the Department since the late 1970's. The problem was reported in the FMFIA report in 1983 with a projected correction date of 1990.

However, in 1990, it was moved to the Department's high-risk list with targeted correction dates ranging from 1991 to 1995 for various components of the systems. Currently the problem remains on the high-risk list with a target date of 1999, some 16 years after it was first reported.

The problem, however has remained relatively consistent over the years and underlies many of the property, procurement, and

cashiering problems previously discussed. The Department has many different, subsidiary systems which do not interface, or adequately interface, to provide current, accurate, and useful financial information.

Some progress has been made but much remains to be done. The Department's current strategy is to develop and implement a single worldwide, integrated financial management system to replace the multiple systems in use now.

Mr. Chairman, that concludes my statement. I will be happy to answer questions you may have.

[The prepared statement of Mr. Payne follows:]

UNCLASSIFIED

STATEMENT OF  
JOHN C. PAYNE  
ASSISTANT INSPECTOR GENERAL FOR AUDITS  
OFFICE OF INSPECTOR GENERAL  
U.S. DEPARTMENT OF STATE  
BEFORE THE  
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
U.S. HOUSE OF REPRESENTATIVES

JULY 13, 1993

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am pleased to appear before you today to discuss long-standing management problems at the State Department. As you know, Mr. Chairman, Mr. Funk is in Moscow, and regrets that he could not be here today because he considers this subject extremely important.

In the six years since the Office of Inspector General was created at the State Department, we have observed many problems, offered many recommendations, and witnessed some improvements. Nevertheless, there still remain major problems that hinder the day-to-day operations of the Department here in Washington, and at our posts overseas.

Today I would like to focus attention on seven categories of management problems identified by the Subcommittee, and which my office has reviewed and reported on recently; the categories include:

**Personnel Issues****Overseas Medical Claim Reimbursements****Contracting and Procurement****Real Property Management****Personal Property Management****Worldwide Disbursing and Cashiering****Financial and Accounting Systems**

The Department has not been shy in acknowledging problems in these areas. As you may know, it has reported six of them as areas of material management control weakness. In addition, we have reported three of these areas in our semiannual reports as major problems of the Department and three are on OMB's high risk list. In spite of this visibility and the recognized vulnerability, the Department's ability to address these problems has been slow and disappointing. For example, the Department's financial and accounting system was identified as a material weakness in 1983 and currently has a projected correction date of 1999 -- 16 years later.

The topic that I would like to discuss first involves important personnel issues that impact many aspects of the Department and represents the underlying cause, or a contributing factor, of many of the other problems.

**PERSONNEL ISSUES****Irregular Staffing Patterns**

A common problem among the various State Department programs that we have reviewed overseas is the irregular staffing patterns that result in key embassy positions remaining vacant for months.

These staffing gaps affect all overseas programs and occur at all U.S. embassies.

It has been recognized for years that staffing gaps have an adverse impact on the day-to-day operations of embassies and on the long-term conduct of American foreign policy. Staffing gaps increase post vulnerability<sup>1</sup> to waste, fraud, and mismanagement, particularly in the administrative and consular areas. Filling positions with employees who lack the necessary knowledge and skills is equally problematic.

Put simply, the Department does not have sufficient employees to fill all of its positions in Washington and abroad. The shortage of administrative personnel overseas has been acknowledged as a material weakness since 1988. Most gaps occur during the transit or training of employees whose positions are not covered by overlapping replacements. Further, the grade levels and skills required by the positions do not always match those of the employees available to fill them.

Even though the Department routinely provides additional specialty and language training, it often must choose between filling a position with someone of a greater or lesser rank, or with a different skill than the position requires, or leaving the position unfilled. Without additional employees to fill such temporary gaps, the Department must either use other alternatives, such as retired annuitants on limited appointments or contracts, or, as usually occurs, let the gaps go unfilled. Consequently, more training -- particularly as we convert to a post-cold war environment -- without more employees means more and longer gaps.

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<sup>1</sup> Inspection Report: The Bureau of Personnel (OIG, ISP/1-91-15, December 1990)

Unfortunately, because of shrinking resources and the increasing needs for overseas representation caused by the creation of many new posts, the situation promises to get worse before it gets better. The current budget environment greatly reduces our ability to obtain additional funding and to increase full-time equivalent employment ceilings in order to reduce staffing gaps resulting from training requirements.

#### Training Deficiencies

The lack of adequately trained personnel overseas is a prevalent personnel shortcoming that plagues the Department. We have found inadequately trained staff occupying key positions in a number of functions and programs at embassies we have audited and inspected. The need for more formal training is aggravated by the practical problems involved in transporting a far-flung workforce to a regional or headquarters training facility. The nature of the Foreign Service, with about 270 overseas locations, does not readily offer traditional training opportunities.

We have found shortages of technically qualified personnel in many functions, from financial, information, and personnel management to international narcotics control programs. Adequate training is especially critical in technical functions that demand high levels of expertise in areas not traditionally associated with foreign affairs.

Indeed, strong disincentives to training are built into the current assignment and promotion systems, creating a perception by some that training is not career-enhancing.

Nevertheless, the increasing technical and scientific requirements, and the need for better management control over finances and other resources dictate that the Department emphasize the importance of training and closely link training

requirements to career progression and assignments. Department management has been generally responsive to our recommendations calling for training certifications before employees are assigned to certain jobs (such as cashiers and contracting officers).

#### Foreign Service National Compensation

The Department employs more than 40,000<sup>2</sup> foreign national employees overseas. The annual payroll for the 30,000 plus who are paid by our three Regional Administrative Management Centers (RAMCs) is about \$400 million. The U.S. Government's policy for setting Foreign Service National (FSN) salaries and benefits is to follow local prevailing wage rates and compensation practices to the extent they are consistent with U.S. public interest. In the Department, the FSN compensation-setting process is complex, cumbersome, expensive, and inaccurate; resulting in overly generous compensation packages in some countries and underpayments in others.

As implemented in the Department, the wage-setting process tends to push FSN pay toward the high end of the scale. This tendency exists because (1) Fortune 500-equivalent companies are often used as comparators instead of a representative cross-section of companies of comparable size in various industries which are really our competitors for employees; (2) jobs in the embassy are often mismatched with higher positions in the private sector (a personnel specialist position matched with an executive-level human resources director, for example); and (3) FSNs are involved in key steps of the wage survey process and thus are in a position to influence the survey results.

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<sup>2</sup> This is an estimated figure; there is no source within the Department to determine the precise number of foreign nationals employed as direct hires, contractors, and in other categories of employment.

The Department also largely ignores consideration of the U.S. public interest in determining compensation rates. For example, it pays a fringe benefit adjustment for benefits that are paid by less than 40 percent of the comparator companies. This practice results in unnecessarily inflated total compensation.

In March 1993, we made recommendations<sup>3</sup> to improve oversight and administration of the wage setting process which the Department is now addressing.

#### Foreign Service National Retirement Programs

The Department has not properly managed the retirement programs for thousands of FSNs employed at U.S. embassies overseas. As a result, many of our career foreign work force have been left without adequate pensions, millions of dollars have been paid into insolvent foreign pension funds, and the U.S. Government faces potential legal liabilities in several countries.

Changes to the federal retirement system in the 1980s had a dramatic effect on our embassies. When authority to enroll federal employees in the Civil Service Retirement System was withdrawn, FSNs were specifically excluded from participating in the restructured retirement plan that replaced it. Consequently, there was no longer a common retirement program available for all our foreign employees worldwide, so each embassy had to seek alternatives for its employees.

At several embassies, FSNs were enrolled in host country social security programs without regard to the programs'

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<sup>3</sup> Audit Report: The Foreign Service National Compensation System (OIG, AUD/3-IM-011, March 1993)



solvency; as a result, millions of dollars have been paid into insolvent programs that will not adequately benefit our career employees. In other countries, U.S. embassies failed to enroll employees in any retirement program (sometimes in violation of local law); as a result, no contributions were made on their behalf. Because the United States' sovereign immunity as a foreign mission overseas is not asserted with respect to employer-employee relations, it is quite possible that the U.S. Government may face a sizable legal liability for not providing retirement benefits.

The problem has created other, unintended side effects such as less productive, older employees who work beyond their retirement age because they cannot afford to retire. Some posts report morale problems with employees who feel they have been betrayed by an uncaring employer. Other posts stated that the lack of adequate retirement benefits affects recruitment and retention.

The Department and posts should have made arrangements for alternative retirement programs in the early 1980s when the old retirement system was phased out and when the budget was less austere. Nevertheless, action is needed now to address this serious problem. Each year, several million dollars could be redirected into reliable retirement programs, and the Department could take steps to reduce the government's potential legal liability. The longer we wait, the worse the situation becomes for the FSNs, the embassies, and the U.S. Government as an employer.

In February 1993, we recommended<sup>4</sup> that the Department take steps to provide affordable, reliable retirement benefits that

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<sup>4</sup> Audit Report: Foreign Service National Retirement Programs (OIG, AUD/3-SP-004, February 1993)

are consistent with U.S. and host country law, and that embassies make legal arrangements to suspend further contributions to deficient programs. The Department has agreed to address the problem.

#### OVERSEAS MEDICAL CLAIM REIMBURSEMENTS

The Department has done a poor job of tracking and collecting medical insurance reimbursements that it is owed by health care insurance companies and employees. In addition to a lack of management oversight at headquarters and posts, the current system lacks incentives for posts or employees to follow through in filing claims and reimbursing the government. In some cases, employees may be keeping the insurance claim payments rather than reimbursing the Department. As a result, we estimate the Department's losses to be between \$400,000 and \$800,000 per year. Furthermore, it is impossible to determine how much was spent, reimbursed, and owed collectively or individually by employees due to the Department's poor accounting data and lack of a system capable of tracking the hospitalization expenditures and reimbursements.

We found that posts had no incentive to collect insurance reimbursements from employees because the hospitalization expenses were funded by headquarters. At five posts we found<sup>5</sup> no reimbursements for 81 cases totaling \$183,402. Employees with medical insurance had no incentive to file insurance claims and reimburse the Department, and the Department made no effort to collect the reimbursement. Of the 81 previously mentioned cases, 65 employees never filed claims with their insurance carriers. In at least 17 cases, it appears that employees filed claims and

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<sup>5</sup> Audit Report is in process.

were paid a total of \$30,000 but did not reimburse the Department.

Another potential vulnerability is the employee who serves overseas without any hospitalization insurance. Under the current system, the Department pays all overseas hospitalization expenses for an uninsured employee and requires no reimbursement. The Department could not identify how many Foreign Service employees are not covered by hospitalization insurance.

In a soon-to-be-issued report, we plan to recommend that the Department revise its accounting and processing procedures and ensure that collection actions are taken against employees with outstanding hospitalization reimbursement debts.

#### CONTRACTING AND PROCUREMENT

Deficiencies in the Department's domestic and overseas procurement process have been included as a material weakness in the FMFIA report since 1987. The four major identified deficiencies are (1) lack of a certified procurement system, (2) lack of training for key personnel, (3) weaknesses in acquisition planning and contract administration, and (4) lack of a worldwide procurement data base.

On one audit<sup>6</sup> we conducted, only one General Services Officer (GSO) out of nine had appropriate formal procurement training, and none had contracting experience before being appointed as a contracting officer. The impact of insufficiently qualified staff overseas is often further complicated by language barriers; poor communications; and local statutes, customs, and

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<sup>6</sup> Audit Report: Overseas Procurement Operations (OIG, AUD/1-PP-004, January 1991)

business practices that differ significantly from those in the United States.

Despite the key role that FSNs play in the post procurement process, they do not receive adequate training. Because of the rotational nature of foreign service assignments, FSNs provide institutional memory and help bridge cultural and language barriers within the procurement environment overseas. Nevertheless, none of the 45 FSN procurement staff at nine posts we included in one study had attended a Department procurement course, nor had they received formal procurement training while employed at the posts.

Procurements were sometimes undocumented, often involved excessive sole-source buying, led to acceptance of inferior quality goods and services, or resulted in situations where the receipt of purchased goods could not be assured. Furthermore, contracts were awarded without determining whether prices were fair and reasonable.

An example<sup>7</sup> of the process gone bad is one post's unauthorized construction of two buildings to house racquetball and squash courts without approval or funding by the Department. Although the buildings were identified as employee association projects, at least \$95,800 of post appropriated funds were diverted for their construction. Also, procurement files were not maintained for the construction materials purchased, warehouse records falsely showed that materials were purchased for maintenance or warehouse stock, and a purchase document was altered to delete a reference to the racquetball and squash

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<sup>7</sup> Audit Report: Special Inquiry into Administrative Activities at Embassy Manila (OIG, AUD/O-PP-006, January 1990)

courts. Disciplinary actions have been taken and an Anti-Deficiency Act violation report has been prepared in this case.

Despite the pervasiveness of these problems, the Department has made considerable progress in addressing the above deficiencies. Improved training is now available to Foreign Service officers involved in procurement, but FSN training remains a problem. In addition, the Department has significantly improved procurement guidance to overseas posts, including an easy to read handbook containing model solicitation and contract documents. Further, the Department requires that all solicitations, contracts, and modifications valued at \$100,000 or more must be sent to the Procurement Executive for review. Finally, the Department has again issued guidance aimed at the improper year-end spending practices.

#### REAL PROPERTY MANAGEMENT

The Department manages about 2,200 government-owned and long-term leased facilities with an estimated value of \$8 billion to \$10 billion. The rehabilitation and maintenance of these properties has been identified as a material weakness in the Department's FMFIA reports since 1988, and as an Office of Management and Budget high risk area since 1990. We have also identified it as a major problem area in our semiannual reports to congress. Department officials attributed the deterioration of overseas buildings to the lack of professional capabilities at the post level, the lack of systematic maintenance and rehabilitation programming, and inadequate funding.

In May 1993, we issued a draft audit report<sup>8</sup> on maintenance and repair of buildings overseas for Department comment. In summary, we found that the Department has made progress in all three of the areas which contributed to the deteriorated state of overseas buildings. However, we found that:

- The Department cannot demonstrate how much the condition of overseas buildings has improved because sufficient baseline data does not exist and there is no system to estimate the cost of the current backlog of maintenance and repair requirements.
- The current process for prioritizing and funding repairs does not systematically evaluate post needs, and has not always considered fire and other safety deficiencies.
- Routine maintenance and repair funds are not always allocated to posts on the basis of need.
- Posts have not always used funds for the intended purposes.
- Posts did not adequately plan or manage their maintenance and repair activities and some had not established preventive maintenance programs.
- The Department's maintenance assistance centers were not effectively servicing posts.

To address these deficiencies, the Department has already implemented several initiatives. A new skill group of maintenance and repair professionals has been formed and individuals are being assigned to overseas posts. Technical teams will periodically visit posts to assist in identifying

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<sup>8</sup> Audit Report is in process.

maintenance problems and in developing preventive maintenance programs. Based on the results of our work, Department officials have also developed "acceptable" ranges per square foot for allocating routine maintenance and repair funds to overseas posts.

#### Acquisition and Disposition of Real Estate

Based on recent audit work<sup>9</sup>, we found errors in the Department's accounting for proceeds of sale which indicate that the system is not functioning as intended and is not adequate to accurately credit reimbursements back to the program. This condition was identified as a material weakness in 1991. We also found inadequate management controls which resulted in posts:

- buying structurally damaged properties;
- maintaining surplus or under-utilized properties;
- buying and selling properties either without obtaining necessary appraisals or without documenting why prices differed considerably from appraisals.

The Department has developed a long-range plan to prioritize real property asset requirements and is in the process of identifying surplus and underutilized real property. In coordination with the Department of Treasury, the Department has developed new policies and procedures regarding the proper handling of the proceeds of real estate sales.

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<sup>9</sup> Audit Report: Acquisition and Disposition of Real Estate Overseas (OIG, AUD/2-PP-002, March 1992)

**PERSONAL PROPERTY MANAGEMENT**

Personal property management has been identified as a material weakness in the FMFIA reports since 1983 and our audits and inspections have consistently revealed significant problems in this area at posts overseas. These problems resulted largely because of shortcomings in policies and guidance, non-compliance with existing regulations and guidance, and inadequate training.

Some examples include:

- significant discrepancies between property records and physical inventories, including missing property;
- an absence of written procedures for personal property management functions, such as receiving and issuing property;
- weak internal controls because of inadequate separation of duties;
- inadequate training for employees performing property management functions; and
- excessive quantities of expendable property on hand.

In our September 1992 report<sup>10</sup> on motor pool operations, we found (1) inadequate guidelines for determining fleet size; (2) possible underutilization of vehicles and oversized fleets at about 50 posts; (3) questionable vehicle replacement practices; (4) inadequate accounting for and use of proceeds of vehicle sales; (5) inadequate controls over bulk fuel, gasoline coupons,

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<sup>10</sup> Audit Report: Motor Pool Operations Overseas (OIG, AUD/2-PP-024, September 1992)



and gas credit cards, resulting in about 40,000 gallons of bulk fuel unaccounted for at four posts; (6) lack of a scheduled maintenance program, which resulted in over- and under-maintained vehicles; (7) unauthorized vehicles that were not being reported to the Department; and (8) unauthorized or questionable usage of vehicles.

Our inspections of overseas posts have frequently identified personal property management problems, such as those described above. In addition, they have frequently found that posts have failed to perform required annual inventories and inventory reconciliations.

The Department has taken numerous actions to address this material weakness and to respond to our findings and recommendations. They include the establishment of an office responsible for directing corrective and proactive personal property measures, increased emphasis on personal property inventory and reconciliation requirements, improved property management regulations and guidance, and increased attention to property management training for American and FSN employees. The Department's current estimated correction date for FMFIA purposes is 1995.

#### WORLDWIDE DISBURSING AND CASHIERING

The Department currently has nine U.S. Disbursing Officers (USDOS) overseas whose responsibilities include paying out billions of dollars for goods and services, overseeing the Department's overseas cashiering operations, maintaining and reconciling Treasury budget clearing accounts, and reconciling local currency bank accounts.

The Department has reported disbursing and cashiering as a material weakness in its FMFIA report since 1984, and estimates that it will not be corrected until 1994. The problem exists because USDOs have been unable to reconcile their Treasury budget clearing accounts and local currency bank accounts; they also have been remiss in exercising oversight of the cashiering functions under their purview. The Department, in turn, has not exercised adequate oversight of the disbursing officers.

These shortcomings have led to both disbursing and cashiering deficiencies. For example, disbursing office accounts are currently \$15 million out of balance with Treasury. The Department has developed new reconciliation procedures that should decrease the amount and number of out-of-balance transactions. However, until the Department improves its oversight of USDO operations, there is no assurance that transactions and accounts are properly recorded and reconciled.

In a 1991 case<sup>11</sup> involving local currency accounts we estimated that, at its current rate of progress, it would take almost 18 staff-years to clear the backlog of unreconciled bank accounts at one disbursing office. Two of that office's accounts had not been reconciled in almost five years. The USDO has since applied additional resources and made progress in reconciling these local currency bank accounts, and the majority are currently up-to-date.

Cashiering operations remain susceptible to embezzlement. Cashier thefts often resulted because cashier supervisors at post had not performed required verifications, had not performed them correctly, or because they failed to follow prescribed procedures. At one post, a cashier was able to embezzle nearly

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<sup>11</sup> Audit Report: Overseas Cashiering Operations (OIG, AUD/1-FM-033, September 1991)

\$80,000 because consular collections were not verified for more than a year. In another case, a cashier was able to embezzle more than \$11,000 because verifications were not performed properly. Currently, our Office of Investigations has five open cases of alleged cashier embezzlement or theft totaling more than \$140,000. Proper controls, including unannounced verifications, physical safeguards, adherence to procedures, and a trained staff are needed to prevent theft or misuse of official funds.

#### FINANCIAL AND ACCOUNTING SYSTEMS

Developing adequate financial and accounting systems has been an elusive goal pursued by the Department since at least the late 1970s. The problem was reported in the FMFIA report in 1983 with a projected correction date of 1990. However, in 1990 it was moved to the Department's high risk list, with targeted correction dates ranging from 1991 to 1995 for various components of the systems. Currently the problem remains on the high risk list with a target correction date of 1999 -- some 16 years after it was first reported as a problem in the FMFIA report.

The problem has remained relatively consistent over the years and underlies many of the property, procurement, and cashing problems previously discussed. The Department has many different, subsidiary systems which do not interface, or adequately interface to provide current, accurate, and useful financial information. The Real Estate Management System, the Non-Expendable Property Application System, and the Enhanced Procurement Automated Control System (EPACS) are examples of subsidiary systems that should be interfaced with the primary financial management systems to ensure the accuracy of financial records and funds balances but are not.

Some of the specific examples of problems we have identified and reported include:

- Four different automated financial management systems were used overseas. Each of the three Regional Administrative Management Centers had its own system for the posts it serviced, and the Financial Management Centers used a fourth system.
- Accounting information transmitted from overseas on disbursements made against Washington-controlled allotments was rejected because of format differences between the overseas and Washington financial systems. This situation has resulted in a large backlog of unrecorded disbursements and inaccurate financial records.
- Payments to vendors were not made as required by the Prompt Payment Act because obligation data were entered from the EPACS incorrectly, proper documentation of receipt of goods was not available, and interest was computed incorrectly.

Incomplete and inaccurate financial information has resulted in loss of available funds, violations of the Anti-Deficiency Act, inaccurate financial statements and reports, and failure to comply with laws and regulations such as the Debt Collection Act and the Prompt Payment Act.

We have made numerous recommendations to (1) strengthen internal controls over financial management systems, (2) increase monitoring and oversight, (3) standardize accounting systems, (4) revise and improve Department regulations and procedures, and (5) increase training.

Some progress has been made but much remains to be done. The Department's current strategy is to develop and implement a

single, worldwide, integrated financial management system (IFMS) to replace the multiple systems in use. IFMS is intended to comply with current core financial management system requirements, operate on open systems platforms, interface with the various subsidiary systems, and provide management with information needed to make resource decisions. The estimated cost of developing and implementing this system is \$28 million for software only. The cost of the equipment on which it will operate is to be included as part of the migration costs from Wang to open systems.

These above-mentioned management deficiencies are not easily solved in the short term. In an era of increasingly tight budget constraints there is even a greater premium on improving the efficiency of the Department's management. Cumulatively, sub-par management systems can sap the vitality of the effort to adapt to new post-cold war challenges. So, while there has been improvement in the management area, the Department needs to continue its commitment to giving this area high priority over the long-term.

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Mr. Chairman, that concludes my prepared statement; I will be happy to try to answer any questions you may have.

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Mr. ENGLISH. Thank you very much, Mr. Payne. I appreciate that. As I listened to your testimony, I was struck by the fact that what we have, obviously, is an awful lot of money being lost each year through the State Department for various reasons. Mr. Conahan, from the GAO's standpoint, what is a rough estimate of the total amount of money being lost as a result of these various reasons, causes, whatever, between people ripping off the taxpayers, inadequate procurement procedures, so on and so forth? How much money are we talking about in total?

Mr. CONAHAN. I think the fact that no one can give an answer to that question is an indication of the severity of the problem.

Mr. ENGLISH. Surely—I am going to press you on that a little bit, Mr. Conahan. Surely, you all have a ballpark figure. You gave us numbers of various situations you ran into. You have a rule of thumb that you can pretty much come up with. I know you do not like to give these kind of estimates. You would like to have it precise, backed up by documents.

We need to know roughly the magnitude of the problem we are talking about here. If we are talking about nickels and dimes; maybe people take pencils, paper, a few incidental items such as that. That is one thing.

If we are talking about millions of dollars, hundreds of millions of dollars, billions of dollars, obviously that is a different situation.

We need to get some kind of feel. I know you people do an outstanding job of carrying out investigations. I know you have some kind of feel of roughly how much money we are talking about on an average each year that is being lost as a result of the problems you are bringing to light here today.

Mr. CONAHAN. I, of course, am not going to come down to a precise number. I cannot do that.

Mr. ENGLISH. A ballpark number.

Mr. CONAHAN. I do believe when you take into account the billions of dollars the Department of State has in real estate and other property around the world, when you look at the lax controls across the board, we are talking certainly out of an appropriation of \$5 billion, hundreds of millions of dollars a year. I really believe that.

Take the medical expenses we are talking about here today. That is a very small number. Last year's appropriation was something like \$1.7 million for payments of these medical expenses by posts around the world.

Mr. Payne, I think, learned that most people carry medical insurance overseas; and most plans, if you take a look at it, will reimburse around 80 percent; so if these people would claim reimbursement from their plans and reimbursed and reimbursed the Department of State, you are talking somewhere around \$1 million of that \$1.7 million that should be returned to the Department of State. As far as we know, it is not coming back. Very little of it is coming back.

When you take a look at the maintenance of property overseas, you find if they had a good preventive maintenance program, much of what they are doing now would not have to be done. It is deteriorated to the point where things are much more costly than things ever should be in the first instance.

If you look at the cashiering operations and the disbursing operations and see the gaps between what they should have on hand and what they do have on hand, you find overall they are very substantial. When you talk about embassy by embassy, 40,000, 15,000 doesn't sound like much. When you add them up across the world over a long period of time both in terms of the vulnerability of assets as well as the vulnerability of operating funds, you are talking about an awful lot of money.

Mr. ENGLISH. Mr. Payne, what about you? You folks have been looking at this for some time. What is your ballpark figure as to—on an average, how much money is being lost each year as a result of these problems?

Mr. PAYNE. I realize maybe I should be in a position to give you a ballpark figure; but we have not tried to estimate in toto what we think the number would be.

As Mr. Conahan said, if you take the areas individually, in cashiering cases, our office right now is dealing with five cashier theft cases totaling about \$145,000. We have medical claims that we estimate we are losing somewhere in the vicinity of \$400,000 to \$800,000. We overpaid Wang last year something like \$1.5 million for items purchased during a short period of time my office looked at. If you add these things together, we are talking millions. I am not in a position to put a total figure departmentwide, worldwide.

Mr. ENGLISH. Would you join Mr. Conahan in saying hundreds of millions?

Mr. PAYNE. I wouldn't dispute that number.

Mr. ENGLISH. You wouldn't dispute it?

The question occurs, this is not a new problem. We have been fooling around with this real estate business for 30 years; and here we are again. We are talking about tight budgets, talking about increasing taxes, talking about cutting programs that are good programs, important programs.

I assume at least in part the reason we are having to do that is because of these kinds of difficulties.

Mr. Conahan, could you begin to explain to me why in the world the people at the State Department have not dealt with this problem?

Mr. CONAHAN. I think that as I mentioned earlier, they are beginning to deal with it, but it is a long entrenched situation and environment. The emphasis in the Department of State at one time was almost solely on the political or diplomatic responsibilities of the Department of State. You had the political cone essentially in charge of the overall operation.

Somewhere along the way, they decided that they needed to begin emphasizing economics. They brought in an economic cone; but that always ran second. The consular and the administrative cones, as I said earlier, didn't come along in terms of any kind of prominence until much later on. There simply was no emphasis on management in the Department of State for a long period of time. It needed audit, needed inspection, needed outside attention to begin focusing on those. They are just now getting on board in terms of recognizing the problem.

I suppose that—or to put it another way, I see the Secretary of State in his travels worrying about such things as our relationships

with foreign governments, both bilaterally and in a multilateral sense. I see him worrying about what is going on in South Korea. I see him supporting the President on G-7.

I have never seen the Secretary of State, quite frankly, talk about the need for improved management over there.

Mr. ENGLISH. Have you heard him talking about budgets? Does he worry any about budget? It doesn't sound like there is any concern at the State Department about budget.

Mr. CONAHAN. At that level, I don't hear much of it. I haven't heard it at that level over a long period of time.

Mr. ENGLISH. That would lead one to believe then that far too much money is being appropriated for the State Department. We have not given them a concern with regard to the issue of budgets. We need to focus on that.

There is nothing like cutting back budgets substantially to start getting attention paid to what is obviously a very serious problem, one that, as I said, in some cases has remained for over 30 years.

This doesn't have to do with whether it is a Democratic administration or Republican administration. This is basically a response by an entrenched bureaucracy; is that not correct?

Mr. CONAHAN. I think that that is very true; yes, sir.

Mr. ENGLISH. Then there is an odor of arrogance with this problem. It appears that in some cases we are talking about china missing, these other incidentals, building racket courts, taking money. These are perks, benefits that go with the job.

Did you find that there is that feel to this difficulty that we are looking at here? It is not just a question of management or implementing management practices, although that would determine it and make it much more difficult; but the feel I get from your testimony and examples being cited is that this is beyond it. This is seen by those who were in these positions as being a right.

Mr. CONAHAN. I don't think there is an environment—I don't think there is a feeling—of accountability within the State Department bureaucracy.

The State Department manuals, regulations all seem to make good sense. We do not see compliance with them. What happens is we make budget allocations to the regional bureaus, out to the posts and essentially let it up to the bureaus and posts to carry out the programs. We do not see the kind of accountability that is necessary to preclude the kinds of things we are talking about here today.

Mr. ENGLISH. Mr. Payne, what do you think?

Mr. PAYNE. I would agree there has been a lack of emphasis in these—what are referred to as nonsubstantive areas—in the State Department. As much as we auditors and inspectors are concerned about property management, for example, this is not a high priority within the Department.

These kinds of functions tend to be tolerated and looked at as something that is necessary to be done but really not where the people strive to perform or that people see as the avenues to the top.

Mr. ENGLISH. Why? Too much money? Too much money appropriated for them? They haven't had to worry, scrape, try to run on a tight budget? Just flat too much money, sounds like.



Mr. PAYNE. I really do not think so. One of the things that concerns me as the budget pressures get tighter is that we will put less money and give less attention to some of these areas that we are talking about right here.

Mr. ENGLISH. But this is management we are talking about. As Mr. Conahan pointed out, the manuals are there. You know, it is laid out. You can go through, read all this stuff, here is what you are supposed to be doing; but there is no emphasis. You know, they don't care. It is attitude. That is where the real difficulty is.

As I said, with that kind of an attitude, it adds the odor of arrogance to it. Under those circumstances, what it means is that people refuse to recognize the realities of particularly these tight budgetary times. This is their right. How dare we interfere with their right?

Is that characterization unfair with your findings?

Mr. PAYNE. I certainly think we have discovered and documented extensive disregard for the regulations and an ignoring of the regulations and a failure to follow the regulations either out of ignorance or the lack of concern for what the proper procedures were.

Mr. ENGLISH. How can it be ignorance given the length of time that this problem has existed and existed in broad daylight? This is not any new discovery. This is no surprise. What we are into here is just continuing to document what has been an ongoing problem, as I said, in some cases for 30 years. Nobody seems to be able to get a handle on it.

You know, maybe we haven't done our job here in this committee. Perhaps this committee should be demanding on the floor of the House of Representatives when we come up with appropriations that these appropriations bills be cut to deal with some of these areas. You know, maybe we need to start seeing if we can line item some of this stuff, in some of these areas where we have gotten serious abuses. Let them live without budgets for a while, or very tight budgets.

Would that be a logical response, Mr. Payne?

Mr. PAYNE. Again, my concern would be if the budget is reduced, that it might not be reduced in the areas that you might intend for the reduction to take place. We might put less emphasis and less resources into property management or property inventories or cashing control. Those are typically areas when there are budget cuts in the administrative area, the support area, those are areas that tend to take some of the brunt of the cuts when budget cuts are made.

Mr. ENGLISH. The problem is, you know, it doesn't seem to make any difference whether we put the money in there or not. These people are not paying attention to that. They are finding a way to get around it.

Heck, they just short circuit the whole system, that is what the heck they are doing if they are not out and out ignoring it.

It does not appear that anyone with any authority is taking any action to deal with the problem. Maybe they are part of it. Maybe the whole darn structure over there is part of it.

I am not trying to say the Secretary of State should be out spending day and night dealing with this problem. It should not

have to come to his level. These are professional people that should be in a position to carry out these responsibilities.

They are not doing it, are they, Mr. Payne?

Mr. PAYNE. Not as extensively as they should. But there have been numerous disciplinary actions taken. You mentioned the squash and racketball courts. We did have two disciplinary actions against two individuals.

Mr. ENGLISH. What was that disciplinary action?

Mr. PAYNE. Each of the two individuals received a 7-day suspension without pay.

Mr. ENGLISH. Why weren't they fired? It wasn't they did this out of ignorance, did they? From what I read, they had to manipulate the system.

Mr. PAYNE. This was not an ignorance problem.

Mr. ENGLISH. They were in manipulating the system. When it came to light, oh, my goodness, you have to go 7 days without pay. Heck, they probably made that up in racketball dues.

Mr. PAYNE. Seven days' suspension without pay is a fairly severe penalty in the Department.

Mr. ENGLISH. This was a severe situation. If you don't deal with this kind of problem, it would seem to me this kind of manipulation of the records, it is falsifying claims is what it is, isn't it?

Mr. PAYNE. Yes, sir.

Mr. ENGLISH. Most folks would fire you over that, wouldn't they?

Mr. PAYNE. Probably.

Mr. ENGLISH. They get 7 days without pay. You tell me that is severe for this kind of offense.

Mr. PAYNE. In the Department it is.

Mr. ENGLISH. I know it is in the Department. That is my whole problem. This odor of arrogance continues to float throughout this entire problem.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman. Good to be serving with you again.

Gentlemen, I came from a business that was very, very competitive, without controls. So my questions deal with that kind of history over a multitude of years. Plus the fact that I am new to this subcommittee but not new to Government operations with respect to some of the hearings referred to previously.

With that in mind, let me pose a little scenario here. Then I have questions I want to ask you for the record.

My experience overseas has been that everybody and his brother is attending somebody's tea party and there does not appear to be enough in the way of nuts and bolts, everyday oversight relative to the operation of the embassy; and as a result, things, because of the time of day, the hours in the day, the social, civic, and other commitments, things just do not seem to get done.

Is that a fair statement, Mr. Conahan?

Mr. CONAHAN. I think that that puts your finger very, very close to the situation overseas. It is not only the civic and the social, but it is the servicing by the embassies around the world of an awful lot of visitors from this town right here. We have got lots of agencies that feel that they have got business all over the world. They are coming in and the embassies have to service those peoples.

There are a lot of fires, so to speak, to put out over there. So it is that kind of an environment.

Also, the wishes of the ambassador and other high-ranking officers will take precedence over the need to comply with established controls. We have seen that time and again.

I think the exchange that Mr. Payne and Mr. English had at the very, very end goes to the heart of your opening statement in terms of the need for fundamental controls in order to have a thriving business. Individuals can always manipulate. Individuals can collude. Individuals can defraud; but in the absence of tight systems, it is much easier to do that.

We would put the money and resources into fundamental systems over there. That will be much more difficult to do, as indeed, we are going to see declining budgets. Mr. Payne's note that we have to assure that we spend enough resources on these systems and controls. We just simply have to do that.

You were talking about action on the floor. Perhaps what we need to do is fence some of these declining budgets and say that, you do need some of these systems and controls; and some of these declining budgets need to be spent on that.

Don't walk away from developing a financial management system. Don't walk away from developing information systems because these things are needed when you have lots of money or a little bit of money. It seems to me that that is something this committee and this Congress could think about.

Mr. MCCANDLESS. Let me go back to part of your statement here. If we put money into systems, obviously I understand what you have just said and what you mean; however we are talking here about all kinds of money that is slipping under the floor, under the door and floor in many other ways which could be used to put these systems in place if somebody had an idea of what they were doing and what they needed to do; then the savings would be there to put into the systems; right?

Mr. CONAHAN. I agree with that, yes, sir.

Mr. MCCANDLESS. Do you have any comment on that, Mr. Payne? Not only that question, but my original question.

Mr. PAYNE. I certainly would agree that, for a variety of reasons, a lot of things just don't get done overseas. A lot of controls are not in place or are not fully exercised.

But, again, I think it is a variety of reasons, not just the tea parties going on, but other things as well, with staffing gaps, other priorities, and so forth.

Mr. MCCANDLESS. I would like to move now to the medical expense part.

I was quite taken aback in one of the statements by the fact that a person serving overseas is not required to have medical insurance. If the person does not have medical insurance, the reimbursement for whatever medical expenses that person may incur becomes then the obligation of the State Department.

What incentive is there for me to continue to have my medical insurance which I had here in the States serving downtown when I am sent overseas? Why don't I just cancel it and let the State Department pay?

I'd be interested in your comments on that.

Mr. PAYNE. Actually, we think there is a problem with the lack of a requirement that the employees carry medical insurance.

Mr. MCCANDLESS. Mr. Payne, isn't that kind of basic?

Mr. PAYNE. It is kind of basic. It is very basic. The only disadvantage that you would have if you didn't continue to carry your insurance would be that if you were back on a visit to the States on home leave or some other visit, then you had a medical problem, you would not be covered. The embassy would not cover your expenses here. That is about the only incentive there is.

It is something we think is a problem and we intend to make recommendations in our report, that we are about ready to issue, that that process be changed, that employees' posted overseas be required to carry medical insurance.

Mr. MCCANDLESS. People are staying on particular kinds of jobs because they have a medical plan which if they were to move to another location or even up the career ladder in the private sector, they might lose the ability to acquire health insurance for some historical reasons related to their family.

When you talk in terms of somebody serving overseas and not needing insurance, then the best way is to stay overseas, visit home, and you do not have to pay \$500, \$600, \$700, \$800 a month for your family; the State Department takes care of it. It is a concern I have.

Can you comment on that?

Mr. CONAHAN. I agree with Mr. Payne's comment. We surfaced this problem a year ago. The State Department inspector general followed up on it in order to make the specific kind of recommendations coming out now. I think we just need to ensure that the State Department does both, one, deal with the insurance issue itself; and then put in place a system to collect the reimbursements.

Mr. MCCANDLESS. Mr. Payne, for the record, the GAO reported on the problem of recovering overseas medical expenses in 1992, August to be exact. Can you tell us where your audit work is in this area and when you will finalize your report? Can you say at this point what recommendations the IG is considering making in this report?

Mr. PAYNE. Yes, sir. Our report is about ready for issuance now. We have finished the audit work and we are drafting the report right now. We would hope to have something out within the next month or so.

The specific recommendations that we will be making deal with the medical insurance coverage, establishing a requirement every person posted overseas be required to carry medical insurance.

Another recommendation will be to create an incentive for the post and the individuals to follow through, file their claims, and reimburse the Government. The situation now is that an overseas post disburses money for an individual's medical care but the charge is to a Washington account so that the post is spending Washington's money. So there is no incentive for the post to follow up and make sure the individual files a claim with his insurance company and then reimburses the Department.

Another recommendation will be——

Mr. MCCANDLESS. May I stop you there?

Mr. PAYNE. Yes, sir.

Mr. MCCANDLESS. I am equivalent to an auditor, controller in embassy X. We have a medical situation with one of the employees of the embassy. The paperwork is all handled in Washington other than the person's actual involvement in the medical treatment?

Mr. PAYNE. The check to the hospital or for whatever medical care is provided is written by the post; but the charge in the financial management system is to a Washington account.

Now the post is supposed to follow up—by regulation the post is supposed to follow through with the individual and make sure the individual files a claim and reimburses the Department. But often these people may be on temporary duty, they may rotate to another post before this transaction is consummated, and the fact the post is not out any of its own funds means there is less of an incentive for the people at post to follow-through and make sure that the case is resolved.

Mr. MCCANDLESS. To be kind of simplistic, there is no incentive on the part of embassy X because they have no financial burden directly?

Mr. PAYNE. Exactly. One of the recommendations we are going to make is that if the post does not follow up in those cases where the individuals do not file a claim and reimburse the Department, then the charge will be reversed from Washington to the post allotment, so the post operating funds will be charged.

Mr. MCCANDLESS. You arrived at an estimate of losses of somewhere between \$400 and \$800,000 a year as a result of uncollected medical expenses. How did you arrive at that figure?

Mr. PAYNE. We visited a number of posts and by digging through the old medical expense records, we tried to make some estimates of how many claims were not filed and followed through on; and then we related that to the overall estimates that were available in the Department as to the total amount expended for medical claims each year.

Mr. MCCANDLESS. Well, we have a mathematical problem here.

Mr. PAYNE. OK.

Mr. MCCANDLESS. On page 10 of Mr. Conahan's report, he says here that expenses paid and potentially recoverable total about \$1 million annually. Then somewhere else, I read there was—this is in the GAO report of August 1992, that the appropriations available for these expenses in 1992 totaled \$1.7 million but in actuality, something like \$2 million was spent.

Am I—is my math correct? Do I misunderstand this subject?

Mr. CONAHAN. I think for the most recent year, the amount available was \$1.7; and for the previous year, it was \$2.2 million. The way we arrived at our potential recoverable total of about \$1 million annually was to take the most recent number of \$1.7 million and apply 80 percent to that on the basis that most plans cover about 80 percent.

And then to reduce that down to—by a couple of hundred thousand dollars in recognition, some amounts would be collected and came up to something we call potentially recoverable of about \$1 million annually.

Mr. Payne's detailed work shows somewhere between \$400 and \$800,000, I don't see a real inconsistency. We thought it could be up to \$1 million. He comes up with \$400 to \$800,000.

Mr. PAYNE. If I may add a comment? One of the reasons we reduced our estimate was because when we followed up with individual cases where the Department's records did not reflect that reimbursement had been made, we found a number of cases where the individuals were able to provide evidence they had provided the reimbursement. But the Department's records were so bad, that they did not reflect reimbursement actually had been made by the individual.

Mr. MCCANDLESS. In the chairman's comments, he asked, I believe, something along these lines: Is this just the tip of the iceberg?

Mr. Payne.

Mr. PAYNE. In the medical claims area?

Mr. MCCANDLESS. Yes.

Mr. PAYNE. I am not sure I understand. We think there is something in the vicinity of \$1½ million to \$2 million expended annually by the Department for medical coverage. Part of the—

Mr. MCCANDLESS. Some of which relates to those who are not covered by a plan?

Mr. PAYNE. Some of which relates to those but some of which relates to things other than medical claims. One of the problems is that this account includes other medical type expenditures at posts such as operations of some of the medical clinics. So we do not have a good, clean figure on exactly how much was spent by the Department for medical coverage provided to employees overseas.

Mr. MCCANDLESS. The last question relative to medical expenses. In one of the reports, one of the statements, a statement was made that in some cases, the employees kept the reimbursement, not reimbursing the State Department.

What kind of disciplinary action or what kind of activity does the State Department take when an example like this is discovered?

Mr. PAYNE. We have taken—

Mr. MCCANDLESS. I hope we don't do the 7-day racketball.

Mr. PAYNE. No, sir. In those cases that were identified from our overseas work where no reimbursement was made to the Department, we contacted the insurance companies of the individuals and asked if a reimbursement had been made to the individual. We found a number of cases where the insurance companies told us they sent checks to the individuals, yet the Department's records reflected no reimbursement.

We took these cases to the Department of Justice. We are currently working with Justice to identify some sort of administrative action against the individuals who apparently filed a claim, recovered a reimbursement from the insurance company, and then did not turn the money over to the Department. We haven't worked out exactly what Justice will be willing to push for on that, but we are trying to pursue a Department of Justice action.

Mr. MCCANDLESS. Would it be too harsh for me to say that that is stealing from your employer?

Mr. PAYNE. No, sir. I don't think it would be too harsh.

Mr. MCCANDLESS. We have to work out some kind of system for addressing this issue?

Mr. PAYNE. Well, we turned this matter—which eventually is stealing—over to the Department of Justice; it has a system for addressing this problem.

Mr. McCANDLESS. Maybe the Internal Revenue Service can help you out there. When somebody doesn't pay their taxes, there is a certain procedure they use. Rather strenuously; like interest, penalties, so on and so forth.

Just a couple more questions, Mr. Chairman?

You talked quite extensively, both of you, about the personnel issues, particularly as it relates to training; and so I would ask both of you, maybe start with you, Mr. Conahan, what is the most critical area of training foreign service individuals are lacking? Cashiering? Procurement? Getting up in the morning? Going to bed at night?

Mr. CONAHAN. All of those things.

Mr. McCANDLESS. All of the above?

Mr. CONAHAN. All of the above. Yes. Cashiering, procurement, basic property management. Foreign national employees are relied upon for much of the administration of an overseas post. They are critical to most administrative operations; and they have not been well trained.

Our work has identified substantial deficiencies in their training. This is complicated for the reason that their American supervisors rotate frequently. There are and have been gaps at posts in critical positions such as administrative officers, general service officers, budget and finance officers who were the supervisors of these foreign national employees.

Recently the Department has focused in on this issue and has begun to recognize the need for more training for these people. Not much has been done, but there is an ongoing dialog in an effort to try and increase the amount of training for these people.

Mr. McCANDLESS. Mr. Payne.

Mr. PAYNE. I fully agree with that answer. I think that particularly in the cashiering area, there has been a correspondence course and a certification program developed to train foreign national cashiers; but there generally are needs in all of the administrative areas.

Mr. McCANDLESS. One more question, Mr. Chairman, with your permission. Mr. Conahan, I am going to read a statement here.

At the end of your written statement, you suggest each embassy adopt a formal management improvement program whereby each embassy would periodically identify those areas of management that need attention, development, correction, and plan and ensure followup on deficiencies. This is on page 24.

However, in the preceding paragraphs, you state problems in the accuracy of embassy self-reporting is something that leaves you unconvinced that long-standing management problems can be corrected.

Doesn't your identification of this self-reporting as an obstacle conflict with your recommendation to establish a system of self-reporting?

Mr. CONAHAN. I mentioned in the statement, overall, there were a number of things that had to be done. I concluded by saying that we have to establish the fundamental systems in the Department,

financial management systems, other administrative control systems.

In addition to that, I think this self-reporting system should be put in place and improved. I don't see an inconsistency. I see problems in the current self-reporting and self-assessments, but we note those problems are there. We think they need to be corrected. We think there needs to be better discipline in the system. We think there needs to be much more candor in the system than is there.

But after all, we cannot come up with an audit and an inspection feature that gives you 100 percent coverage. You have to rely upon the managers themselves in order to manage. I think we need to give them that responsibility; we need to tell them that we want them to do those things. We need to hold them accountable.

We are talking about a 7-day suspension here, working out something with Justice. I quite agree those kinds of things are never going to turn the big problems around over in the Department of State. This self-reporting system must be coupled with everything else. I think it can be made to work.

I think the Federal Managers and Financial Integrity Act has been beneficial to the Government overall. It has its own problems, but we all continue to work on it. I think we can put in place this kind of system at the Department of State, continue to work on it and get the benefit out of it that is needed.

Mr. MCCANDLESS. Mr. Payne, do you have anything you would like to add?

Mr. PAYNE. I would certainly agree that any kind of formalized process at post that would cause people to sit down and periodically examine the problems and devise strategies for addressing them is a step in the right direction.

Mr. MCCANDLESS. Mr. Chairman, you have stated in your comments the importance of this hearing. I would like to finish by asking our panel, because we cannot do all of the things that we would like to do at the same time, you have identified about seven problem areas today, both the GAO and the State Department: Personnel issues, medical claim reimbursements, contracting and procurement, and personal property management, financial and accounting systems, worldwide disbursing, and cashiering.

Would you prioritize the top three with respect to the severity and need for immediate attention by the State Department? That is a loaded question, because as time passes, somebody may be looking at you to see which three you are making progress on, if any; hopefully some.

Mr. CONAHAN. Shall I start on that?

Mr. MCCANDLESS. If you would like to.

Mr. CONAHAN. I think those individual weaknesses that you mentioned need management attention for any or all of them to be corrected.

Again, I don't see the Secretary of State being in a position to spend much time in this area; but I do think from time to time he needs to mention it and emphasize it.

We still are looking forward to an Under Secretary for Management over there. It seems to me that as that individual comes in, there needs to be a good bit of discussion about his emphasizing



the need to correct these things and putting in place the systems that are required.

Now first off, I think the financial management area is probably one that needs a great deal of attention. Until you get control over the finances and the resources of an organization, you do not have much chance of getting too much out of these other systems.

Right now, what you have in the Department of State is a system that essentially worries about funds control. We do not have a great problem with that; they do not have a system in place that would lead you to a general ledger; they do not have subsidiary accounts; they do not have financial statements of the nature that you are accustomed to as a businessman. You need those kinds of statements and controls in order to control your operation.

So I think, No. 1, you have to look there.

Now, let us compare real property operations with the medical situation that we were talking about before. The Department has somewhere between \$8 and \$10 billion worth of property overseas. Do you know what the annual amount is they spend on property?

Mr. PAYNE. No.

Mr. CONAHAN. They spend a great deal of money annually on their properties overseas in terms of leasing costs as well as costs to fix those properties. You compare that with the \$1.5 or \$2 million associated with the payment of medical expenses, it seems to me I would worry much more about property at the moment than about the medical expenses; though I cannot walk away from the problems associated with the medical expenses.

Then they spend a great deal of money annually on contracting and procurement. I think that would be my third area. I would like to overhaul management, financial management, property and procurement and contracting. That would be my run down.

Mr. McCANDLESS. Mr. Payne, would you have a list you would like to share with us?

Mr. PAYNE. In my statement, I said that the problems with the financial management and accounting systems underlie a lot of the other problems and contribute to the problems in the other areas. I would certainly agree with Mr. Conahan, the financial and accounting systems would probably be the No. 1 area that I think should have immediate attention.

Beyond that, I would also certainly agree that even though there problems, medical claims, and worldwide disbursing and cashing are probably less of a problem than some of the other areas on the list.

I would probably focus on the personnel area separately, though; into the training, looking at the adequacy of personnel, staffing gaps, requirements determination and looking at exactly what kind of people and how many people we need to run the jobs. I would probably put something in personnel and training as a second area followed by the real property and then procurement and contracting.

Mr. McCANDLESS. Finally, Mr. Chairman, of a contemporary nature, of interest to all of us, I understand the GAO team has just returned from Moscow and the inspector general is there now. What is the state of affairs of the Embassy in Moscow?

Mr. CONAHAN. I can say in a word the time we were there, it was rather chaotic.

Mr. PAYNE. The basic purpose of the visit by the inspector general and the team that is there from our office now is to try to reach some sort of determination on what is to be done about the new office building. Are we going to continue to leave the building there, tear it down, modify it in some way? That is the basic objective of the visit he is making now. I don't know what the outcome or determination will be.

Mr. McCANDLESS. Thank you, gentlemen.

Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you, Mr. McCandless. I appreciate that.

I was struck by Mr. Conahan pointing out—the point you were making, maybe it would make sense to fence some of these budgets, fence in certain areas that we need action on. I agree with that.

I would like to ask both you and Mr. Payne to fine tune, hone down whatever you may with regard to your recommendations as those would be applied to the appropriations bill, I think that to specify as finely as you could exactly what it is that these funds should be used for and we may want to talk to our friends on the Appropriations Committee to see if, in fact, we can fence this money for specifically that purpose.

The other side of this, though, and I think we—you alluded to it. In fact, I think one of you—I am not sure which one—stated it flat out. We have a little management problem here. We can put this money up for these purposes. We can even tell them you will use this money for this specific purpose.

But if you have somebody over there that doesn't care, or maybe worse than that, that they are not willing to manage, it is kind of hard for us to even specify what these funds are. Of course, we are going to be subject to—I might say this—subject to the charge of micromanagement as this committee always is.

But in this case, after 30 years, it may be time for a little micromanagement. You may not have a choice. We may have to micromanage if the people in the Department of State refuse to get hold of this problem; it seems to me it has gone far enough. I certainly want to talk to the chairman of the committee about this, but that may be an area we want to look at very closely. We are going to need your help.

As I said, we need specifics with regard to what needs to be done with regard to the appropriations bills. That may be the best way for us to deal with some of these excesses that we are finding in that area.

We have got to have intent before we can make any of these programs work, as you well know. It appears we don't.

I also have additional written questions we would like to submit to you both in a timely manner. As I said, I would like personally to see your recommendations in a very timely manner as to what changes need to be made in these appropriations bills specifically.

Mr. CONAHAN. We certainly will work with the subcommittee to provide that, Mr. Chairman.

Mr. ENGLISH. Good. I can count on a very finely tuned proposal; is that right, Mr. Conahan?

Mr. CONAHAN. I am listening to you, sir.

Mr. ENGLISH. Mr. Payne, can I count on a very finely tuned proposal from your office?

Mr. PAYNE. Yes, sir.

Mr. ENGLISH. Very good.

I want to thank you both for your testimony. I want to thank you for the fine work you are doing.

Thank you very much. We look forward to working with you.

Mr. CONAHAN. Thank you.

Mr. ENGLISH. The next panel of witnesses is comprised of Mr. Patrick Kennedy, the Assistant Secretary of State for Administration at the State Department, accompanied by Mr. Larry Eisenhart, Associate Comptroller for Financial Management at Department of State; Mr. Lloyd W. Pratsch, Procurement Executive with the State Department; and Mr. James Murphy, Chief, Supply Division, Office of Supply and Transportation with the State Department.

You folks can come on up. We will be happy to get your testimony.

[Witnesses sworn.]

Mr. ENGLISH. Mr. Kennedy, I assume you are speaking for everyone on the panel.

Mr. KENNEDY. Yes, Mr. Chairman.

Mr. ENGLISH. You may submit your written testimony for the record. Without objection, I hope you will feel free to summarize that testimony.

**STATEMENT OF PATRICK KENNEDY, ASSISTANT SECRETARY OF STATE FOR ADMINISTRATION, DEPARTMENT OF STATE, ACCOMPANIED BY LARRY EISENHART, ASSOCIATE COMPTROLLER FOR FINANCIAL MANAGEMENT; LLOYD W. PRATSCH, PROCUREMENT EXECUTIVE; AND JAMES MURPHY, CHIEF, SUPPLY DIVISION, OFFICE OF SUPPLY AND TRANSPORTATION**

Mr. KENNEDY. I will, sir.

Mr. Chairman, Mr. McCandless, I appreciate the opportunity to appear before this committee today. The Department of State does take its responsibilities in the management area very seriously.

The Secretary is concerned and I am concerned. I am a career Department of State Foreign Service officer and one of the reasons why I accepted this position several months ago is because I want to see our operations improved.

In the chairman's letter to Secretary Christopher, a number of topics were raised: Medical expense reimbursement, cashing, management of personnel property, procurement, training, staffing. These are all subjects we are and have been addressing.

We are certainly not perfect in this regard. I think that that is evident from the testimony this morning. But I believe that we have been making progress and I think I can demonstrate this.

Two years ago the Department of State hired a health care management professional for the first time, for the express purpose of improving our expertise in this area.

Each of the Department's regional administrative management centers now has a cashier oversight group that reviews post records

to ensure that cashiers are reconciling correctly, perform unannounced cash counts and provide technical assistance and training.

The Department of State now has in place, at almost 200 posts, computerized personal property management systems which must be used. The Department invokes penalties if they are not.

The Department now has a certified procurement system, has greatly expanded training for contracting officers, and continues to provide assistance and advice to the field.

Over 500 contracting officers have now been trained and warranted. There is a correspondence course for cashiers; property control procedures are an integral part of the General Services officer training course; and a correspondence course is being prepared for local national employees involved in inventory control.

The Department of State recognizes that these are issues of serious concern and will continue to work to improve our efforts in these areas. Much has been done and much remains to be done. I would like to briefly outline for the committee more fully what actions we have taken and what further steps we do plan to continue to make.

The Department of State is pursuing several initiatives to ensure that medical expense payments for persons covered by the Department are recovered from health insurance carriers or other sources. The Department has fully implemented a change to its medical claims procedures in Washington. Persons medically evacuated to the United States must use their health insurance to cover all costs.

For the overseas environment, the Department is faced with the fact that in many localities health care providers will simply not accept U.S. health insurance benefit plans. They only understand and accept an embassy guarantee. The Department is working to overcome this and has developed a system in London, which the Department has chosen to be its primary medical evacuation point for most of Europe, Africa, and the Middle East.

There the hospitals which the Department utilizes for medical evacuations will accept U.S. health insurance coverage, just as providers do in the United States. Our Deputy Medical Director for Health Systems Administration will shortly travel to Singapore to work out a similar system in this city, which the Department intends to use as a primary evacuation point in that region of the world.

For those places where we cannot make such arrangements, we fully intend to have a system in place by the end of this year which will implement essential control procedures. The Department's inspector general has just completed an indepth review of this matter and the Assistant Medical Director and I have reviewed those recommendations. The appropriate Department officials are now going over them and we will see steps are taken by the end of this year to ensure funds are controlled and recovered.

In the property management area, the Department has not always had a system in place. The Department, though, now requires that posts complete an annual inventory. They must certify in writing that the inventory has been completed, that it has been reconciled, and that any losses are documented. Posts that do not sub-

mit such certifications have their authority to procure items revoked until such time as they comply.

We have taken this step 92 times in the past 7 years. The Department is also attentive to any steps to treat this requirement cavalierly and it has taken or is in the process of taking disciplinary action against 10 officers or employees who have falsified records.

The Department cannot ever afford—especially in these times of budgetary stringency as the subcommittee has well noted—to waste even \$1 of resources due to lack of adequate controls. We train all new General Services officers thoroughly in the use of the Department's fixed asset inventory system: NEPA, the nonexpendable property application.

This training will soon be expanded to cover expendable property as well. Our regional bureau executive offices and the central property management office are involved as well. Lastly, our inspector general conducts a review of this function.

The large volumes of personal property in an overseas environment make for difficult control problems. Inventory controls are a very labor-intensive activity. However, the Department has recently developed a detailed procedural handbook which will be distributed in conjunction with the State Department's property management regulations. This new handbook will standardize internal control procedures at all overseas posts. Also, at the suggestion of the GAO, Department regulations have been revised to require that posts' property survey board reports are submitted to the Department for review.

As a specific example of our commitment to control personal property to the maximum extent possible, our embassy in Mexico City is attempting to reprogram resources to put an additional American employee at its warehouse to exercise greater property controls. At the same time, gentlemen, you must realize we will never have a perfect record no matter how hard we try.

Though one cannot dismiss any loss of U.S. Government assets, there may be a point at which our expenditures for additional loss prevention exceed any deterrent effect. Last year after putting more stringent controls into place, our Embassy in Mexico City could not account for three-quarters of 1 percent of its over \$5 million inventory. The cost of putting an additional American employee at the warehouse can range up to \$150,000; and we have to weigh this very carefully against a loss of property which we deeply regret and which we intend to control, but which amounted to only three-quarters of 1 percent of the \$5 million inventory.

The Department has set a 1 percent threshold for inventory losses above which an independent inquiry by a Washington-based board of survey is required. While there are no established industry standards for inventory losses, we believe that this level is consistent with commercial practice. We must make every effort to eliminate such losses while realizing we must balance the resources we are investing in loss prevention against the total loss.

The control of liquid assets, cashiering operations, is a field where we must devote every effort. Our goal is zero losses. Procedures are in place to assure cashier accountability. As I mentioned

earlier, our regional administrative management centers are in charge of this.

We currently have over 500 cashiers worldwide who handle over the course of the fiscal year half a billion dollars in assets. In the past 2 years, our losses have averaged just under one one-hundredth of 1 percent. Our goal is zero and I believe that the efforts we are making will keep the losses to the absolute minimum, hopefully to zero.

In Mexico City, for example, all but one of our cashiers, have completed the Foreign Service Institute's cashiering course and the other is in the process of taking it now. Unannounced cash verifications are conducted and our Deputy Chief of Mission is on record having sent a cable a year ago to all principal officers at our consulates reminding them they must be personally engaged in this responsibility.

In the procurement area, the Department has made significant progress in correcting areas of concern. We now have a Procurement Executive in the Department pursuant to the Executive order. We are evaluating the performance of the agency's procurement system.

He has been able to certify that our system meets these criteria. This certification does not mean that our system works perfectly, though that is our goal. Rather, it attests that the system works within established Federal guidelines; addresses known problems; and has oversight systems in place to identify and correct any deficiencies.

In 1987, the Department's procurement process was identified as a material weakness because of four major deficiencies: Lack of a certified procurement process; lack of training leading to individual warranting of contracting officers; weaknesses in acquisition planning and contract administration; and lack of a worldwide procurement data base.

In each instance, we have implemented the needed reforms. Training of overseas contracting officers has been revamped and the General Services officer course now features significant involvement by the staff of the Office of the Procurement Executive. Individual named contract warrants are now issued to graduates of this course; the former position-based warrant system has been abolished. The significance of these actions is that individual accountability has now been introduced into the overseas procurement process.

As a consequence, the process is stronger and we believe the quality has been improved. The Procurement Career Management Program has been created and the Procurement Career Management Board has been established to set policy on training for contracting personnel.

Specific training requirements are in place and are being enforced for three levels of contracting personnel based upon the dollar amount of the actions they handle and on the training and experience prerequisites they have met before their appointment. The Department's acquisition planning system was revised in fiscal year 1992 in coordination with the Chief Financial Officer. In fiscal year 1993, the timetable for submission of plans was advanced to

enable the planning system to generate more useful management information.

The worldwide procurement data base system was implemented and fully functional at the end of fiscal year 1992. The system now provides information on all domestic and overseas procurement actions. The system has received recognition by the Federal Procurement Data Center as one of the most effective in the Federal Government.

Based on this progress, the Department's Procurement Executive has certified the Department of State's procurement system as meeting the handbook requirements.

We now have a system in place to monitor activities overseas which are only a small percentage of our overall work, since the predominant percentage of our major procurements are undertaken in Washington. In fiscal year 1992, only some 1,500 procurement actions were undertaken overseas that exceeded the small purchase limit.

The Department has a high level of competition in its procurement actions worldwide. In fiscal year 1992, over 94 percent of actions over the small purchase limit were competed and this represented 95 percent of the dollars involved. For small purchases, 77 percent of the actions were competed, representing 83 percent of the dollars involved.

Since 75 percent of the Department's procurement dollar obligations were above the small purchase limitation, these numbers represent a significant achievement in meeting the Competition in Contracting Act's goals of promoting competition. The Department ranks among the highest of all Federal agencies in its performance.

We cannot, however, rest. We have provided posts with standardized tables of contents for contract files to ensure that they comply with applicable regulations and to permit greater oversight. We are about to implement a system of standardized small purchase files which will be particularly useful overseas in ensuring adherence to regulations and promoting more efficient procurement operations.

There is no doubt, as was pointed out earlier today, the Department is stretched thin in its administrative staffing and that can lead and does lead to problems. This is also one of the causes of our inability to fully train as many American personnel in administrative procedures as we would like.

There are other causes such as lack of teachers and per diem. This also manifests itself in our inability to develop training programs for overseas foreign national staffs whether through correspondence courses, training at our regional centers or bringing them to Washington.

This shortage of administrative staff is not going to disappear any time soon. Efforts to reduce the budget deficit will result in further staffing cuts to the Department, which will have to be shared by its administrative infrastructure as well.

We do not intend to give up, however. We are investigating ways to expand the use of American family members overseas to supplement our administrative staffing. In fact, three such individuals will complete a pilot course as contracting assistants and will be going overseas in August. These individuals will be able to provide valuable assistance to the posts to which they have been assigned.

Also, we are trying to conduct more regional workshops, which cost less in terms of per diem and travel. One such workshop has just been held in Cairo for a number of Middle Eastern posts, and it was videotaped so that it could be shared further.

We are also trying to develop standardized procedures, such as the ones I have discussed above in the property management and procurements areas. We believe that these will serve as significant aids to our overseas colleagues, enabling them to better meet these challenges.

In addition to the subjects Chairman Conyers raised in his original letter to Secretary Christopher, one other was prominently discussed today. That is real property management. While commenting that FBO has made progress, it was noted we have not achieved all our desired goals in these areas. While I fully agree we are not there yet, we have every intention of continuing.

Seventy percent of our embassies now conduct annual facilities surveys; and those which do not have funds withheld from them. Ninety percent of our embassies now have a preventive maintenance program. Whereas 5 years ago we had no formal facilities management personnel overseas at all, we currently have 71 and plan to continue this program as funding permits.

Over the last several years, since the last GAO study, we have implemented stringent administrative controls on our overseas housing program, we continue to pursue this issue vigorously. Each ambassador must now submit an annual certification that all possible steps are being taken to bring housing into compliance with standards. The annual rotation of personnel, which takes 2 to 4 years, should have us in compliance in the near future.

Mr. Chairman, I wish I were here today to report the successful completion of all our goals. I know that is not the case. It will take time for us to make corrections and improvements.

In this area of reduced budgets, it will undoubtedly take longer than we would hope. However, since these subjects do involve ways to better manage scarce resources, I can assure you that the Department has every intention of staying the course. As the General Accounting Office noted in its review of the foreign buildings operations:

FBO has begun to correct some of its chronic problems in accordance with many of our previous audits and recommendations.

We believe that these reforms show promise. But some key improvements are still in the initial stages and will take years to implement. It is important to continue these efforts to make long-standing improvements, especially in consideration of the increased work load and the demand for resources associated with opening new posts in the former Soviet Union.

Mr. Chairman, Mr. McCandless, we intend to make every effort in other administrative areas as we have been making in FBO. I have outlined a number of steps that we have already taken and which we intend to continue to take.

We can and must do so.

I would be pleased to answer any questions you might have.

[The prepared statement of Mr. Kennedy follows:]



STATEMENT OF  
PATRICK F. KENNEDY  
ASSISTANT SECRETARY FOR ADMINISTRATION  
DEPARTMENT OF STATE  
BEFORE THE  
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
U.S. HOUSE OF REPRESENTATIVES

JULY 13, 1993

Mr. Chairman:

I appreciate the opportunity to appear before this Committee. The Department of State takes its responsibilities in the management area very seriously.

In your letter to Secretary Christopher you raised a number of topics: medical expense reimbursement, cashiering operations, management of personal property, procurement, training, and staffing. These are all subjects that we are and have been addressing.

Two years ago the Department hired a health care management professional for the express purpose of upgrading our expertise in this area. I will be outlining later several steps that have been taken.

Each of the Department's Regional Administrative Management Centers now has a cashier oversight group that reviews post records to ensure that cashiers are reconciling correctly, performs unannounced cash counts, and provides technical assistance and training.

The Department now has in place, at almost 200 posts, computerized personal property management systems, which must be used. The Department invokes penalties if they are not.

The Department now has a certified procurement system, has greatly expanded training for contracting officers, and continues to expand the advice and assistance that it provides to the field.

Over 500 contracting officers have now been trained and warranted; there is a correspondence course for cashiers; property control procedures are an integral part of the General Services Officer course and a correspondence course is being developed for local national employees involved in inventory control work.

The Department of State recognizes that these are issues of serious concern and will continue to work to improve our efforts in these areas. Much has been done and much remains to be done. I would like to outline for the Committee more fully what actions we have taken and what further steps we intend to make.

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## Recovery of Medical Expense Payments

The Department of State is pursuing several initiatives to ensure that medical expense payments for persons covered by the Department's Health Care program are paid by, or recovered from, health insurance carriers or other sources as appropriate. The Department has fully implemented a change to its medical claims procedures in Washington. Persons medically evacuated to the United States must use their health insurance to cover costs.

For the overseas environment the Department is faced with the fact that in many localities health care providers will simply not accept U.S. health insurance benefit plans. They only understand and accept an Embassy guarantee. The Department is working to overcome this and has developed a system in London, which the Department has chosen to be its primary medical evacuation point for most of Europe, Africa, and the Middle East. There the hospitals which the Department utilizes for medical evacuations will accept U.S. health insurance coverage, just as providers do here. Our Deputy Medical Director for Health Systems Administration will shortly travel to Singapore to work out a similar system in that city, which the Department intends to use as a primary evacuation point in that region of the world.

For those places where we cannot make such arrangements, we fully intend to have a system in place by the end of this year that will implement essential control procedures. The Department's Inspector General has just completed an in-depth review of this matter and has made a number of recommendations on procedures that could be adopted. The appropriate Department officials are currently reviewing this report, along with other ideas that have been proposed, and appropriate steps will be taken to insure that funds are recovered.

#### Controls over Personal Property

In the property management area, the Department has not always had a system in place. The Department now requires that posts complete an annual inventory. They must certify in writing that the inventory has been completed, that it has been reconciled, and that any losses are documented. Posts that do not submit such certifications have their authority to procure additional personal property withheld until such time as they comply. We have taken this step 92 times in the past seven fiscal years. The Department is also attentive to any steps to treat this requirement cavalierly and it has taken or is in the process of taking disciplinary action against ten officers in this regard.

The Department cannot ever afford, especially in these times of budgetary stringency, to waste even one dollar of resources due to a lack of adequate controls. As I indicated above we take this responsibility seriously. We train all new General Services Officers thoroughly in the use of the Department's fixed asset inventory system: NEPA, the Nonexpendable Property Application. This training will soon be expanded to cover a new system, called Stock Control, which controls expendable supplies. Our Regional Bureau Executive Offices and the central Property Management Office are involved as well. Lastly, our Inspector General includes a review of this function in every overseas review.

The control of large volumes of personal property in an overseas environment will never be an easy task. Inventory controls are a very labor intensive activity; however, the Department has recently developed a detailed procedural handbook which will be distributed in conjunction with State's property management regulations. The new handbook will standardize internal control procedures at all overseas posts. Also, at the suggestion of GAO's audit team, Department regulations have been revised to require that posts' Property Survey Board reports concerning missing items be submitted to the Department for review.

As a specific example of our commitment to control personal property to the maximum extent possible, our Embassy in Mexico City is attempting to reprogram resources to put an American at its warehouse to exercise greater controls and is charging its housing management personnel with the responsibility for monitoring check-in and check-out procedures carefully.

At the same time, we must realize that we will never have a perfect record, no matter how hard we try. Though one cannot dismiss any loss of U.S. Government assets, there may be a point in which our expenditures for additional loss prevention exceed any deterrent effect. Last year, after putting more stringent controls into place, our Embassy in Mexico City could not account for three-quarters of one percent of its over five million dollar inventory. The cost of putting an American employee at the warehouse could be as much as \$150,000 and this must be weighed against the \$38,000 in property that the Embassy could not account for.

The Department has set a one percent threshold for inventory losses above which an independent inquiry by a Board of Survey is required. While there are no established industry standards for inventory losses, we believe that this level is consistent with government and industry practice. We intend to

make every effort to eliminate such losses, while realizing that we must balance the resources we are investing in loss prevention against the volume of loss.

#### Controls over Cashier Operations

The control of liquid assets is a field where we must devote every effort. Our goal is zero losses. Procedures are in place to insure cashier accountability. Each post itself and the appropriate Regional Administrative Management Center are charged with this responsibility.

We currently have 577 cashiers in operation worldwide, who handle approximately a half a billion dollars per year. In the past two years our losses have averaged just under one one-hundredth of a percent. Our goal is zero but I believe that such a minute fraction is evidence of the effort that we are making to properly safeguard funds.

In Mexico City, for example, all Cashiers but one have completed the Foreign Service Institute's cashiering course and the one remaining one will do so. Unannounced cash verifications are conducted and the Deputy Chief of Mission is on record, having sent a cable over a year ago, to all Principal Officers at our Consulates and Consulates General in

Mexico reminding them that they must be personally engaged in this responsibility. And our Financial Management Center at the Embassy is in weekly contact with all the cashiers.

#### Procurement Practices

In the procurement area, the Department has made significant progress in correcting areas of concern. Executive Order 12352 requires that the Agency's Procurement Executive establish criteria for a sound procurement system, evaluate the performance of the agency's procurement system, and certify that the sytems meets these criteria. This certification does not mean that the system works perfectly, though that is our goal. Rather, it attests that the system:

- Works within established Federal guidelines;
- Addresses known problems; and,
- Has oversight systems in place to identify and correct any deficiencies.

In 1987, the Department's procurement process was identified as a material weakness because of four major deficiencies:



- lack of a certified procurement system;
- lack of training leading to individual warranting of Contracting Officers;
- weaknesses in acquisition planning and contract administration;
- lack of a worldwide procurement database.

In each instance we have implemented the needed reforms:

- Training of overseas Contracting Officers has been revamped and the General Services Officer course now features significant involvement by the staff of the Office of the Procurement Executive, acting as instructors. Individual name contracting warrants are now issued to graduates of this course; the former position-based warrant system has been abolished. The significance of these actions is that individual accountability has been introduced into the overseas procurement process. As a consequence, the process is stronger and, we believe, quality has been improved. The Procurement Career Management Program has been created and the Procurement Career Management Board

has been established to set policy on training for contracting personnel. Specific training requirements are in place and being enforced for three levels of contracting personnel, based on the dollar amount of the procurement actions they handle, and on the training and experience prerequisites they must meet before appointment as Contracting Officers.

-- The Department's acquisition planning system was revised in FY 1992 in coordination with the Chief Financial Officer. In FY 1993, the timetable for submission of plans was advanced to enable the planning system to generate more useful management information.

-- The Worldwide Procurement Data Base system was implemented and fully functional in FY 1992. The system now provides information on all domestic and overseas procurement actions. The system has received recognition by the Federal Procurement Data Center as one of the most effective systems in the Federal Government.

Based on this progress the Department's Procurement Executive has certified that the Department of State's procurement system now meets the criteria listed in the Procurement System Certification Handbook.

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We now have systems in place to monitor activities overseas, which are only a small percentage of our overall work, since the predominant percentage of our major procurements are undertaken in Washington. In FY-92 only some 1,500 procurement actions were undertaken overseas that exceeded the small purchase limit.

The Department has a high level of competition in its procurement actions world-wide. In FY 1992, 94% of actions over the small purchase limit were competed and this represented 95% of the dollars involved. For small purchases, 77% of actions were competed, representing 83% of the dollars involved. Since 75% of the Department's procurement dollar obligations were above the small purchase limitation, these numbers represent a significant achievement in meeting the Competition in Contracting Act's goal of promoting competition. The Department ranks among the highest of all Federal agencies in its performance.

We cannot, however, rest. We have provided posts with standardized tables of contents for contract files to insure compliance with applicable regulations. We are about to implement a system of standardized small purchase files which will be particularly useful overseas in insuring adherence to regulations and promoting more efficient procurement operations.

## Staffing and Training

There is no doubt that the Department is stretched thin in its administrative staffing and that can lead to problems. This is also one of the causes of our inability to fully train as many American personnel in administrative procedures as we would like.

The other cause of restricted training opportunities is funding for teachers and per diem; this also manifests itself in our inability to develop training programs for our overseas foreign national staffs, whether it be through correspondence courses, training at regional centers, or by bringing them to Washington.

This shortage of administrative staff is not going to disappear any time soon. Efforts to reduce the budget deficit will result in further staffing cuts to the Department, which will have to be shared by its administrative infra-structure as well. Training opportunities will likely also diminish.

We do not intend to give up. We are investigating ways to expand the use of American family members to supplement our administrative staffing. In fact three individuals will complete a pilot course as contracting assistants and will be

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going to overseas assignments in August. These individuals will be able to provide valuable assistance to the posts to which they have been assigned. Also, we are trying to conduct more regional workshops, which cost less in terms of per diem and travel costs. One such workshop has just been held in Cairo for a number of Middle Eastern posts, and it was videotaped so that it could be shared further.

We are also trying to develop standardized procedures, such as the ones I have discussed above in the property management and procurements areas. We believe that these will serve as significant aides to our overseas colleagues, enabling them to better meet these challenges.

Mr. Chairman. I wish that I could report successful completion of all our goals. I know that this is not the case. It will obviously take time for us to make corrections and improvements. And in this era of reduced budgets, it will undoubtedly take longer than we would like.

However, since these subjects do involve ways to better manage scarce resources, I can assure you that the Department has every intention of staying the course. As the General Accounting Office noted in its review of the Foreign Buildings Office:

"FBO has begun to correct some of its chronic problems in accordance with many of our previous audits and recommendations."

"We believe that these reforms show promise. But some key improvements are still in the initial stages and will take years to implement. It is important to continue these efforts to make long-lasting improvements, especially in consideration of the increased work load and the demand for resources associated with opening new posts in the former Soviet Union."

We intend to make the same level of effort in other administrative areas as we have been making with regard to FBO. I have outlined a number of steps that we have already taken and we intend to continue our efforts. We can and must do so.

I would be pleased to take any questions you might have.

Mr. ENGLISH. Thank you, Mr. Kennedy. That sounds very nice. It doesn't quite square with the reality. We have been dealing with this problem for some time. It seems every time we end up with one of these GAO reports we get statements along the lines you have just given us. It seems to be a little bit of an effort over at the State Department to try to get their act together in this area. Pretty soon we are right back to business as usual.

More typically, business as usual is along the lines—and I will quote from the Embassies Property Survey Board in its October 1991 report on—and it is stated that “it is sad that so much property is lost or unaccounted for and we feel those who are responsible should pay. Unfortunately, we have no choice but to sweep it under the rug. Even the record of who is responsible is obscured. We hope that there has been no theft or malfeasance, but it is the easiest explanation for so great a loss.”

That seems to me to be more along the lines of what the reports we are getting from GAO and the inspector general than along the lines of what your testimony said. We have seen this in the past.

Also, I took note of the fact that you made—you all were taking responsibility for serious administrative action. That was at the beginning of your statement, dealing with the health problem. We are hearing once again though of a case of out-and-out fraud. No one would describe what is taking place—some have been referred to the Justice Department, I believe the inspector general said, for administrative action.

Mr. KENNEDY. Sir, that is—

Mr. ENGLISH. What about criminal action? Have you taken criminal action against any of these folks that are guilty of fraud?

Mr. KENNEDY. Mr. Chairman, we refer these cases wherever we find them to the Public Integrity Section of the Department of Justice.

Mr. ENGLISH. Are you making any recommendation with regard to fraud, Mr. Kennedy?

Mr. KENNEDY. Sir, if I was called upon for a recommendation, I would refer them for criminal prosecution.

Mr. ENGLISH. I know you are a fine fellow. I am sure you would do the right thing. I am asking what the State Department is doing.

Mr. KENNEDY. The State Department sends them to the Justice Department with the recommendations of the inspector general. It is his duty to make recommendations along the lines you outlined, Mr. Chairman.

Mr. ENGLISH. So the Secretary of State, you, no one else in the State Department, has nothing to do with it. When you come up with a problem like this, you kick it over and hope something gets done?

Mr. KENNEDY. No, sir. We refer them to the Public Integrity Section of the Department of Justice.

Mr. ENGLISH. No recommendation made?

Mr. KENNEDY. It is the inspector general, sir, that makes the recommendations. I would be pleased to, if it was a case within my immediate jurisdiction, I would append my own personal recommendations, if it was warranted. Yes, sir.

Mr. ENGLISH. You think some of these people ought to be going to jail instead of getting a slap on the wrist?

Mr. KENNEDY. Yes, sir.

Mr. ENGLISH. Have you discussed this with the Secretary of State?

Mr. KENNEDY. No, sir. I have only been on the job 6 weeks, sir.

Mr. ENGLISH. I see. Has the Secretary of State, to your knowledge, had any discussions with the Attorney General with regard to prosecution of individuals who committed fraud against the U.S. Government?

Mr. KENNEDY. I am not aware of any, sir; no.

Mr. ENGLISH. Has there been any discussions you know of with the Secretary of State with regard to these problems?

Mr. KENNEDY. Mr. Christopher is well aware—

Mr. ENGLISH. I didn't ask you that, Mr. Kennedy. I asked you have there been discussions you are aware of with the Secretary of State with regard to what action should be taken in these kinds of instances?

Mr. KENNEDY. No, sir. I would have to defer to the inspector general in that regard, sir.

Mr. ENGLISH. Yes.

Well, the problem we are into, as I said, is that this is not a new situation. I understand, you know, with the political folks coming on board, you are kind of at the mercy until you get your feet on the ground to the career folks. It appears to me what we are seeing here is problem with—that continues year in and year out, administration after administration, doesn't much matter the political party. Doesn't seem like anybody has been able to get a handle on this thing.

What do you think of the discussion I had previously pertaining to fencing off funds and coming up with specific areas of appropriations, earmarking specific funds to deal with detection systems pertaining to these kinds of problems?

Mr. KENNEDY. Mr. Chairman, I am personally in favor of maximum funds being available to support administrative operations.

Mr. ENGLISH. I didn't ask you that.

Mr. KENNEDY. I understand.

Mr. ENGLISH. I asked you if specifically earmarked?

Mr. KENNEDY. As a general policy, Mr. Chairman, earmarkings create very great operational difficulties. We believe obviously that these administrative steps can and must be taken. Circumstances can arise where you might need to shift resources from one administrative area to another.

Therefore, if the earmarking is too stringent, it might actually serve to deter the Department from concentrating on an area where a subject has come to light that deserves more attention at that particular moment.

Mr. ENGLISH. We have a problem here that has gone on for years, Mr. Kennedy. There is no reason to think it is going to be any different in the future.

The problem is that the State Department has had its chance. This problem continues to exist. At this particular point, I don't see the Congress, if the Congress is going to be responsible, has much choice but to attempt to deal with it. We are losing here, according



to the estimate of the GAO—and the inspector general didn't disagree with it—hundreds of millions of dollars, hundreds of millions of dollars that are being lost because of the fact that obviously we do not have much interest in the Department of State coming to grips with this problem.

Mr. KENNEDY. Mr. Chairman, I must respectfully disagree with Mr. Conahan's estimate of hundreds of millions of dollars.

Mr. ENGLISH. What do you base your estimate on?

Mr. KENNEDY. If you take, sir, the worst case scenarios such as happened in Mexico City where they had inadequate internal controls and lost or more likely could not account for \$60,000 a year in property, that is one of the five largest embassies in the world.

If you project that loss to every one of our 240 posts in the world, including one and two-officer consulates which may not even have that much property in toto, we were talking about losses in the range of \$10 to \$12 million total, then property is one of our major concerns, sir.

You take our cashing operations, which are a half a billion dollars a year. Last year it was something like \$38 to \$40,000, less than three-quarters of 1 percent that could not be accounted for.

If you take all these together, sir, I admit we have a serious problem; but I do not see it, sir, as amounting to hundreds of millions of dollars.

Mr. ENGLISH. You believe Mr. Conahan and Mr. Payne are sensationalizing the problems of the State Department, exaggerating the depths of the problem we are dealing with; is that right?

Mr. KENNEDY. I would not choose, sir, to use the word sensationalizing.

Mr. ENGLISH. What would their motives be? You have two gentlemen that carried out investigations in this area. They both seem to be in agreement.

Mr. KENNEDY. Sir, I just do not agree with their estimate of hundreds of millions of dollars.

Mr. ENGLISH. Have you carried out an investigation to the extent the GAO and inspector general have?

Mr. KENNEDY. I have read all the GAO and inspector general reports.

Mr. ENGLISH. I did not ask you that. Have you carried out an investigation?

Mr. KENNEDY. No. But I do not believe it amounts to hundreds of millions of dollars.

Mr. ENGLISH. I guess I am having a hard time finding the credibility in your response. These are the people who carried out the investigations. They are the ones responsible. They are the ones that came to this conclusion. In order for them to arrive at your conclusion, obviously, if you are correct—let me put it that way: If you are correct, obviously they have some ulterior motives for coming up with these kind of estimates.

Either we have to take your expertise in which you carried out no investigations, in which you have been on the job for 6 weeks, in which you are basing all your information strictly on the reading of their summaries and we have even got to assume, you know, more about this than they do.

It is kind of hard to reach that kind of conclusion, Mr. Kennedy. Can you understand that?

Mr. KENNEDY. Yes, sir, I understand that.

Mr. ENGLISH. All right. We appreciate your differences of opinion on the matter.

The question of intent, as I mentioned, it appears that—and this is not directed at you or anyone who may just have come on or anyone in the past administration in a political position, the problem we have here has lasted for years and years.

It is a situation in which, evidently, the people who are career people within the State Department have not seen fit to obey rules and regulations, procedures that are laid out, and have—as I mentioned, this has a feel of a perk, that this is a benefit, this is one of those little extras if you are a State Department employee or maybe in a certain position in the State Department, that you have the right to do certain things. That is a little extra that is added on.

I assume that that is a problem you ran into with regard to health care claims, taking crystal, anything else with regard to the various embassies. The fact of the matter is, it doesn't seem to matter much what is written in the rule book. Intent is where the difficulty is in this particular case.

I think it is career people, Mr. Kennedy. I am not saying it is you or anyone else that Mr. Christopher or anyone who has just come on board over there. The real question now is, what do you do about it?

That is one reason I was troubled to hear that people who have been found guilty of some of the most egregious acts receive a slap on the wrist. Falsifying documents, to use taxpayers' money, for private purposes, that is pretty serious business.

Seven days without pay doesn't seem to cut it as being a proper response to that kind of a problem. Would you agree?

Mr. KENNEDY. I agree, sir. I fully agree that taking U.S. Government funds for private purposes should be punished to the fullest possible extent of the law. There is absolutely no excuse for taking Government funds for private gain. None whatsoever.

If I might—

Mr. ENGLISH. Sure.

Mr. KENNEDY. You asked about intent. I agree, as has been pointed out by my GAO and OIG colleagues, that we are not perfect. As I wanted to outline in my statement, I believe that over the last few years—and I am talking about only the last 5 years—the Department has made significant progress.

We now have a computerized inventory system in place at all our posts. We have annual certifications that are required. We have a worldwide procurement data base. We are warranting contracting officers. In the past, we had no facilities management personnel overseas to enhance our buildings overseas and ensure they are properly maintained. Five years ago, we had none. Now we have 71 specialist trained facilities management personnel.

All this represents, I believe, sir, progress in addressing these issues. We are trying to change a culture. We are trying to put the correct emphasis on administrative operations. We are trying to build in the systems that Mr. Conahan talked about, the computer-

ized data bases, and inventory systems. We are trying to put trained personnel in the field.

We have changed the training courses at the Foreign Service Institute so we can warrant contracting officers so they know what to do when they get overseas and ensure that contracting obligations of the government are taking place under the appropriate rubric.

Mr. ENGLISH. We appreciate that. Also, I recognize that we have got about 30 percent of the embassies that responded to the questionnaire, to our questionnaire, regarding the—they acknowledge they had not conducted the recommended annual condition surveys of all government-owned and long-term leased facilities.

We also find out that pertaining to the questionnaires, 88 percent of the embassies responding to the questionnaires reported that some of the housing units at their embassies exceed the States' 1991 housing standards and 61 percent reported 10 percent or more exceed their housing standard.

Obviously we have serious problems. The whole point I am coming down to, Mr. Kennedy, I am not trying to lay this on you. You just got here. This thing has to come to a head now.

Mr. KENNEDY. I agree, sir.

Mr. ENGLISH. Thirty years is long enough. It is time to deal with it. What I would ask for you to do, is for you to get together with the GAO and with the inspector general and work with them in coming up with those finely honed recommendations that we can make in the next year's appropriations bill where we can specifically earmark and make sure the funds are going to be spent and available in implementing the systems at least to deal with this problem.

Now the question of intent, only you and Mr. Christopher can deal with that. I would like to ask you, if I have your word that you will, in fact, sit down with Mr. Christopher, go through these problems, and urge that he, in fact, make this a top priority of the State Department?

I would also like to ask for a commitment from you in contacting the appropriate individuals within the Justice Department and ask that any instances of fraud or abuse that are referred to them, that it is prosecuted to the fullest extent of the law as opposed to any disciplinary action that might be taken or administrative action that might result in any 7-day loss of pay or something along that line.

Can we count on to you do that, Mr. Kennedy?

Mr. KENNEDY. You can, sir.

Mr. ENGLISH. Thank you very much.

Mr. McCandless.

Mr. MCCANDLESS. Thank you, Mr. Chairman.

Mr. Kennedy, there are a lot of fine people in the State Department. As the chairman pointed out, we are not after you or somebody else. The system is the problem.

Also, it has been pointed out that this is an accumulation that goes back, in some cases, 30 years. It is my understanding that the inspector general has been on board, the office has been authorized and filled and operating for a period of 6 years.

The problems I have here are not what you are telling us you want to do, which I am sure you in your own mind and desire and interest want to do. The problem is that other subcommittees have had other—Mr. Kennedy's here—who have said we want to do this, we want to do that. I am fully committed to this kind of future activity.

One of the concerns I have here—let me turn to page 5 of your testimony. I would consider the question very basic. I am quoting your testimony here.

The control of large volumes of personal property in an overseas environment will never be an easy task. Inventory controls are a very labor-intensive activity. However, the Department has recently developed a detailed procedural handbook which will be distributed in conjunction with State's property management regulation.

From that, am I to understand that there has never been, prior to the development of this procedural handbook, an activity for personal property accountability?

Mr. KENNEDY. No, sir. There were regulations. However, we wanted to get out a handbook which was much more specific, which was geared to our new computerized system, that would represent a teaching aid, a checklist, a training tool that would allow our personnel overseas, American and foreign national, to use that new system to the maximum extent possible.

Mr. McCANDLESS. Let me share with you a couple of thoughts, part from personal experience, part from observation in the military. Personal experience at a very low level, I might add. Turning over command of an organization require that the individual accepting that command accepted what the individual turning over the command had in the way of inventory.

If that inventory was not there at the time, then the person who was responsible for that inventory was required to personally, financially make up the difference. If the individual accepted that inventory and signed on and later it was discovered that all of the inventory was not there, then that individual became responsible for making up the difference.

Now you used the term large volumes of personal property. The other part of this coin is that I observed over a period of years the transfer of command of the 15th Air Force at Larch Air Force Base in what used to be my district. That same principle applies to the 15th Air Force which goes clear to Guam and all over Alaska and so on and so forth, so I have just a little difficulty accepting the fact that large volumes of property overseas, in an overseas environment cannot be accounted for.

What kind of a comment do you have on that?

Mr. KENNEDY. I am sorry, Mr. McCandless, if I left the impression that it cannot be accounted for. I was trying to say that, unlike possibly a military installation which is self-contained, State Department and other agency facilities at an embassy overseas tend to be spread out across a city, possibly several cities within one country.

It is a much more labor-intensive task to get out there and to account for every chair and table in all the houses that we might own or lease around the city. But that is the responsibility we must engage in, sir. I fully agree with you.

Mr. McCANDLESS. I am going to ask you some formal questions for the record. The State IG reports the lack of a worldwide procurement data base and the GAO questionnaire found almost a third of the responding embassies had not fully implemented the system.

Is your written testimony accurate that the data base was implemented and fully functional in fiscal year 1992?

Mr. KENNEDY. Yes.

Mr. McCANDLESS. Has State prioritized the areas of foreign training for foreign service nationals? If so, what are the critical areas that need to be addressed?

Mr. KENNEDY. Would you like these for the record, sir? Now?

Mr. McCANDLESS. I would like your answer to the question.

Mr. KENNEDY. I believe the three subjects we have to engage in most vigorously are procurement and contracting, property management, and budget and fiscal operations. I would give equal weight, sir, to all three.

Mr. McCANDLESS. GAO reports problems embassies face in supporting other agencies. What has been the rate of growth in overseas presence of non-State agencies over the past 10 years and to what is this growth attributable?

Mr. KENNEDY. Sir, I will have to submit that for the record. I know the State Department constitutes approximately 20 percent of the civilian U.S. Government presence overseas now. I will have to provide you with the time line.

[The information follows:]

Question: GAO reports problems embassies face in supporting other agencies. What has been the rate of growth in other overseas presence of non-State agencies over the past 10 years and to what is this growth attributable?

Answer: The number of authorized American, full-time permanent positions overseas under the authority of the Chief of Mission -- for all agencies excluding State -- has increased from 10,199 to 13,407 (a growth rate of approximately 31.5%) since the end of FY 1983.

Other-agency programs have increased over the years, with a corresponding increase in the number of their personnel stationed overseas to manage their programs. Over this ten-year period, the agencies having the largest growth rates have been the Departments of Defense and Justice. There has also been an increase in the number of U.S. diplomatic mission during this time period, most dramatically in recent years with the independence of states which formerly comprised the Soviet Union. Other agencies have expanded their programs and activities to include these new posts.

Mr. MCCANDLESS. As State is in the process of opening up new posts in the newly independent States, I imagine with the shrinking budget, State must consider closing others.

Can you indicate which ones might have a shorter life expectancy and on what basis that kind of decision is made?

Mr. KENNEDY. When we opened approximately 12 to 15 new posts in the former Soviet Union—Yugoslavia, Eastern Europe—we closed, I believe it was, approximately a dozen to 15 smaller consulates and two embassies around the world. That achieved some of the cost savings that we needed.

I cannot predict fully what the next round of post openings might bring and what the offsets would be. My personal view is it would probably entail closing of consulates to save and aggregate the resources to open other embassies. I believe our desire is to maintain diplomatic representation.

Mr. MCCANDLESS. In conclusion, I would like to go back to my example of the military. I realize there is a difference, but there is also a similarity—

Mr. KENNEDY. Yes, sir.

Mr. MCCANDLESS [continuing]. In that we are dealing with public moneys, public inventories.

You talked about the extrapolation of certain percentages when applied to the Embassy in Mexico and what a small amount of money that would be, percentage-wise, to the total budget, which is one way of looking at it.

However, we are not talking about cans of Ajax or bars of soap or something of that nature. In less than 2 years in Mexico City, the Embassy lost personal property including office equipment and household furnishings valued at \$120,000. Office equipment is not something you can put in your duffle bag on your way out in which you brought your lunch on the way in.

Have you got an idea on how to control office equipment disappearing?

Mr. KENNEDY. Yes, sir. I think the answer is to use the systems that we now have in place. The \$120,000 figure the General Accounting Office cites represents items, I think, 1991 and prior. In the fiscal year 1992 inventory that the post conducted and reconciled, they were unable to account for \$38,000 worth of property.

I find that to be still too high a figure; but I believe it represents the fact that when a post devotes the kind of time, attention, and resources that it should and must to safeguarding U.S. Government assets, we do not have the kind of losses that I find appalling.

Mr. MCCANDLESS. Should there be some kind of financial responsibility placed upon the captain of the ship, so to speak, with respect to the assets that are placed under his care, custody, and control?

Mr. KENNEDY. We try to have a system that assigns responsibility to the—to each occupant, sir. Right now, the Department has put in place a system, for example—residential furniture, each piece of residential furniture is signed for by the occupant when they take up occupancy of their Government provided apartment.

At the end of their tour, an inventory is taken and if any of that furniture is missing, the occupant of that unit must make good on that loss.

Mr. McCANDLESS. That is a procedure in place, active and accounted for?

Mr. KENNEDY. I believe so. It was in place at the last post I served at which was Cairo, Egypt which is one of our largest embassies. Everybody signed in for their household effects and then signed out.

Mr. McCANDLESS. What kind of household furnishings would have disappeared in Mexico City? What we are saying here is that in Mexico City, some people weren't required to sign out or sign in or something?

Mr. KENNEDY. Sir, there was clearly a lack of adherence to procedures in Mexico City which is unconscionable. Also, sir, I might add that the records in Mexico City were so bad that the loss could have been more than \$120,000. It also could have been less because of inadequate recordkeeping.

Mr. McCANDLESS. Where would you place the responsibility for that?

Mr. KENNEDY. On the administrative operations there.

Mr. McCANDLESS. Were they political appointees? Career people?

Mr. KENNEDY. Career people.

Mr. McCANDLESS. That would be a position that would be a little higher than a entry level Foreign Service officer, wouldn't it?

Mr. KENNEDY. Sir, I think the problem there is that there was inadequate recordkeeping which did not permit the people to reconcile their accounts. They did not know what was missing and where it was missing. Some of that material apparently then turned up later in subsequent inventories because it was not lost but misplaced.

Mr. McCANDLESS. I am going to yield to the chairman. He had something that would apply to this.

Mr. ENGLISH. I just handed Mr. McCandless a copy from the GAO talking about examples of missing items. This is not small stuff. We are talking about automated data processing equipment worth \$28,765; shredders; typewriters worth \$9,965, in addition to other items worth \$18,000 such as lamps, lawn furniture, vacuum cleaners, stereo equipment, refrigerators, probably an automobile or two thrown in there.

Mr. KENNEDY. No, sir, no automobiles.

Mr. ENGLISH. Are you sure?

Mr. KENNEDY. Yes.

Mr. ENGLISH. How did that stay off the list?

Mr. KENNEDY. Separate inventory list.

Mr. ENGLISH. I see.

Mr. McCANDLESS. I have additional questions I will submit and hopefully receive answers on them.

Mr. KENNEDY. Yes, sir.

Mr. ENGLISH. Thank you, Mr. McCandless. I appreciate that.

Mr. Kennedy, there are other questions we will want to submit to you in writing. We would appreciate a timely response.

Mr. KENNEDY. Certainly, sir.

Mr. ENGLISH. We would appreciate it if you get together with the GAO and inspector general. I think it would be wise and a positive step and would be nice if the administration would recommend spe-



cific items we do a little earmarking on next year in the appropriations bill.

I note the bill is up tomorrow. It probably would be an opportune time to do it tomorrow, but I am not sure we can get our act together that quick. Although I might offer an amendment just to cut \$500 million in the bill on general principles. If you have all these extra funds—would you all support that?

Mr. KENNEDY. Mr. Chairman, I don't think we could.

Mr. ENGLISH. You don't think so? I am disappointed, surprised, shocked.

Mr. KENNEDY. Mr. Chairman, if I might briefly?

Mr. ENGLISH. Mr. Kennedy.

Mr. KENNEDY. You certainly have outlined areas in which we have several failings. I do not in any way say that we do not have those. I think that as Mr. Conahan outlined, one of the problems we have had is inadequate administrative staffing overseas and a large cut such as that that you suggested would probably serve to reduce our ability to control assets overseas rather than improve our controls.

I realize we are talking about 30 years here. I realize that I am making a statement on the basis of 6 weeks in this position. But I would sincerely hope that if one looks at the progress that the State Department has made, and which the GAO has acknowledged that we have made, they question whether or not we will stay the course.

I can assure you that we will stay the course; and I believe that if we continue with the management improvements, the systems that we are putting into place, that we will see a very, very real change in the State Department's ways of doing business in this area.

Mr. ENGLISH. Well, I think we want to help you stay that course, Mr. Kennedy. As I said, I am deadly serious about a proposal to specifically earmark funds for making sure we have in place the apparatus to keep track and deal with us. There is nothing we can do from the standpoint of intent. Only the Secretary of State, people in positions such as yours can, I think, convey to those overseas as well as here at home that it is the intent of this administration that that kind of foolishness not be put up with. Whatever perks, arrogance, whatever it may be that caused this problem to linger for 30 years has to come to an end. I would hope we will see a heavy emphasis in that area.

We can, at least from our standpoint, while we cannot do anything about intent, we can specifically identify systems in place to track what is going on and what is taking place and what problems exist. And certainly we can track what kind of sanctions are taken against those who use the system.

I, for one at least, will be looking very carefully and whether or not the punishment meets the crime. From the examples we have seen so far, that does not appear to be the case. I would hope this Justice Department would be more inclined to deal in a serious manner with the kind of serious abuses we have been hearing about.

I want to welcome you to your post.

Mr. KENNEDY. Thank you, sir.

Mr. ENGLISH. Is this your first hearing by the way?

Mr. KENNEDY. First hearing after my confirmation.

Mr. ENGLISH. Congratulations. I hope it is one that has been memorable for you. We tried to keep it interesting and as lively as we could. We didn't want you going to sleep at our hearing.

I appreciate your candid answers. I appreciate your obvious interest in this subject and your desire to cooperate with this committee. We appreciate that very much. We are looking forward to working with you in the future.

Mr. KENNEDY. Thank you, sir.

Mr. ENGLISH. With that, if there is nothing more, Mr. McCandless, we will recess subject to the call of the Chair.

Thank you all very much.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

# APPENDIX

## MATERIAL SUBMITTED FOR THE HEARING RECORD



United States Department of State

Office of Inspector General

Washington D.C. 20520

August 16, 1993

The Honorable John Conyers, Jr.  
Chairman, Legislation and National  
Security Subcommittee,  
Committee on Government Operations,  
House of Representatives

RECEIVED

AUG 18 1993

Dear Chairman Conyers,

In response to the questions you submitted to me on July 20, 1993, I am enclosing herewith our answers for the official record.

In some cases we do not have the worldwide cost and expenditure figures you requested. Because our reports were based on findings at selected posts and/or because of inadequate record keeping and financial information, these numbers simply are not available. Nonetheless, given these constraints, we have attempted to respond as fully as possible.

We appreciate the opportunity to participate in these important hearings, and recognize the support they provide to the work of the Inspector General.

Sincerely,

*John C. Payne*  
John C. Payne  
Assistant Inspector  
General for Audits

Enclosure  
As stated.

## REAL PROPERTY MANAGEMENT

1. You have reported that the Department has paid more than fair market price for buildings and properties. How much more money has the U.S. Government and taxpayer paid as a result of these practices?

Although there is no central source within the Department to determine how much has been overpaid acquiring real estate, a recent audit disclosed that several acquisitions were made at prices exceeding the appraised values. For example, one residence in Pretoria was acquired at a price \$17,000 higher than the appraised value. Similarly, a warehouse was purchased for about \$128,000 more than the appraised value. We recognize that appraised value may differ from fair market price, nevertheless, these examples indicate that the Department may have paid more than fair market price.

2. Your audits indicate that State has purchased properties with structural defects that require expensive repairs. How can this happen, and how often does it happen?

Although posts are required to obtain independent structural condition reviews prior to acquiring property, we found that generally posts do not.

We don't know precisely how often this occurs, but of the five locations we visited, two posts had purchased properties with structural defects; they include:

- Embassy London paid \$110,000 for a building that required \$45,000 in structural repairs.
- In Johannesburg, a building that was purchased for \$65,000 needed repairs that were estimated at \$120,000.

3. According to your office, State has incurred higher than necessary construction costs and failed to adequately monitor construction. How much more money has the U.S. Government and State paid as a result of paying higher prices and failing to adequately monitor construction projects?

The precise cost of paying higher prices may never be known, however we did quantify the extent of the problem at certain locations. OIG's audit of overseas construction projects disclosed that if a value engineering study of the design of the Embassy Muscat project had been done, as

recommended in August 1985, construction costs could have been reduced by an estimated \$3 to 4 million without affecting the quality or appearance of the building.

An example of unnecessary and excessive costs was the use of decorative facade stone for Embassy Muscat that was imported from the United States, Canada, and India. An acceptable alternative was available locally at about half the price.

Contract administration at the four posts visited was generally inadequate. In Muscat, for example, many of the 119 change orders for the project occurred because of poor design and because the architect was allowed to make changes without Departmental approval.

4. You have reported that State has used inefficient, uneconomical building designs. What has been the result of these practices?

The results vary, but the types of unacceptable building designs you described were found at three of the four sites visited during the overseas construction projects audit. For example, at Embassy Sanaa the office walls were "over-built" of solid concrete; they were unnecessarily expensive and it will be costly and difficult to reconfigure the space as future needs evolve.

The extent of such practices is unknown because the geographic scope of our audit was limited to four locations; likewise, the additional cost of these practices worldwide is not projectable.

5. Unneeded properties have been purchased according to some of your audits. How can FBO allow this to occur?

According to the Department's office of Foreign Buildings Operations (FBO), its ability to monitor real property purchases has been hindered by resource constraints.

6. According to your reports, FBO has failed to adequately maintain buildings and their mechanical systems. Are we still looking at a \$350 million backlog in repairs?

No one knows for sure. That \$350 million figure was FBO's initial projection based on preliminary cost estimates that FBO now realizes were inadequate to accurately project the backlog. The backlog may have been greater or smaller

than \$350 million at that time. OIG has recommended that the Department estimate the backlog and track and report on it.

7. Your audits indicate that State has violated the Anti-Deficiency Act. Could you give some examples?

In 1987, Embassy Panama's administrative counselor improperly negotiated lease agreements and amendments for office and residential space which resulted in a \$7.7 million Anti-Deficiency Act violation. In 1992, the Department reported this violation to OMB, the President, and the Congress. The administrative counselor retired before the Department could suspend him without pay for 30 days.

During the 3-year period from 1985 to 1987, officials at Embassy Manila wrongfully manipulated funds for unauthorized construction and maintenance projects, including construction of two buildings containing squash and racquetball courts. In June 1993, the Department reported to OMB, the President, and the Congress a violation of the Anti-Deficiency Act. Two of the individuals were suspended for seven workdays; one was absolved by the Department's Foreign Service Grievance Board; and the case was dropped against the fourth individual.

In addition to the above examples, the Department is in the process of making determinations in 10 other cases that may prove to be anti-deficiency violations.

8. FBO apparently has deposited sales proceeds of about \$10 million into a non-interest bearing account. Is this still the practice? How much money has the U.S. Government lost as a result of this inept practice?

The Department has advised us that it has forecast October 1, 1993, as the deadline for implementing procedures to ensure that proceeds are deposited in interest-bearing accounts.

It is uncertain how much money may have been lost in this regard. In one case we found that about \$10.6 million in sales proceeds collected in Singapore between October 1988 and June 1989 were periodically deposited in non-interest bearing accounts, some sums for as long as 9 months; however, without knowing the exact dates of the deposits and Singapore's daily interest rates during that time period, it

is not possible to compute an amount of lost interest, which probably was several thousand dollars.

## CONTRACTING AND PROCUREMENT

1. You have reported that the Department's overseas procurement operations lack adequate management oversight and suffer from an acute shortage of technically qualified personnel. Can you estimate the cost to the Government and taxpayers of overpayments?

We are unable to estimate the additional cost caused by the lack of management oversight and shortage of technically qualified personnel because there is no mechanism to provide this type of information.

2. What sort of "modifications" to contracts do posts make to circumvent procurement law? Is the Department aware of these schemes?

Contracting officers sometimes incorrectly modify contracts for changes in scope instead of soliciting the additional work through a new contract. This is usually done to prevent untimely delays due to changing contractors in mid-stream or soliciting a new contract. Also, contracts are sometimes modified at year-end to retain funds past their expiration dates.

The Department is aware of its vulnerability, based on problems that have been uncovered in the past.

3. You have reported on year-end spending abuse. Does this mean that each post goes on a buying spree the last few months of the year buying unnecessary items, and signing contracts at higher costs to the Government and taxpayer?

Our work disclosed that year-end spending abuse remains a perennial problem. We found that posts routinely use improper procurement and fiscal practices to retain funds past their expiration date, fail to fully record obligations for fixed-price contracts, and procure supplies and equipment in excess of their needs. The most significant deficiencies are related to solicitation practices, contract statements of work, cost and price evaluations, submission of contracts for A/OPE review and file documentation. Examples we have found include:

-- Embassy Santo Domingo ordered 429 tires in fiscal year 1988, including 200 which were ordered during the fourth quarter. This provided an average of 10 tires per vehicle per year, which clearly exceeded the annual usage rate.



- Embassy New Delhi purchased 234 air conditioners at a cost of over \$200,000 on multiple purchase orders to avoid the \$25,000 small purchase ceiling. The request to the bureau, indicated that the post had planned to purchase only 81 air conditioners at a cost of \$65,700.
- Embassy Accra improperly obligated over \$213,000 of fiscal year 1988 funds without purchase orders or other valid obligating documents.
- Embassy Dublin generated at least 24 invalid obligations totaling \$333,000 at the end of fiscal year 1991.
- Embassy Brussels improperly obligated \$82,000 in blanket purchase agreements in 1991, for purchases made in 1992.
- Embassy Prague established at least four invalid obligations with fiscal year 1990 funds totaling \$20,000. Although the obligating documents had 1990 dates, the actual transactions took place the following fiscal year.

4. If contracts are awarded without a determination into the reasonableness of price, who is ultimately responsible? How can the Department prevent these practices from continuing?

According to federal law and Department regulations, the contracting officer is ultimately responsible for assuring that the government receives a fair and reasonable price.

The following measures can be taken to ensure the Department pays a fair and reasonable price:

- Increase emphasis on obtaining fair and reasonable prices in contracting officer's training.
- Include in contracting officers annual performance standards the requirement to make a determination on the reasonableness of prices for contracts which they award.
- Emphasize to contracting officers the importance of making determinations on the reasonableness of contract prices.

## STAFFING AND TRAINING

1. Your office has reported that the process for compensating locally-hired employees overseas is cumbersome, costly, and inaccurate. The process has resulted in many of State's career foreign work force retiring with inadequate pensions. Has this led to millions of dollars of taxpayer money being paid into insolvent foreign pension funds?

Millions of dollars have been paid into insolvent foreign social security systems since the early 1980s.

How much money are we talking about here?

At three South American posts, the U.S. Government and our FSN employees contributed more than \$900,000 into insolvent pension systems in 1991. The total amount paid into insolvent systems worldwide is unknown because the fiscal health of the more than 50 host country social security systems to which we contribute has not been determined.

What steps, if any, is the Department taking to correct this?

The Department has not yet taken corrective action on the recommendations OIG made in February, 1993. As a first step, it plans to determine which foreign social security systems are fiscally unsound, then proceed from there.

Is the U.S. Government facing potential legal liabilities due to this woeful system?

Yes, the U.S. Government faces potential legal liabilities in every country where it fails to provide any retirement benefits to its FSN employees.

2. Your office has long reported on staffing gaps and deficiencies in training of State Department personnel both U.S. and foreign nationals. Have you seen any attempts by the Department to correct these inadequacies?

Yes. Specialist training has improved since we reported shortcomings in a 1990 report. The specific offices responsible for developing, approving, and implementing the specialist training curriculum are now better coordinating

their efforts and they have jointly implemented nearly all of the recommendations we issued on this topic. In addition, the Department has established a separate office within the Office of Information Management to coordinate specialist training.

Unfortunately, problems with staffing gaps continue, and because of shrinking resources and the increasing needs for overseas representation caused by the creation of many new posts, the situation promises to get worse before it gets better.

## PERSONAL PROPERTY CONTROLS

1. Over the years, you have reported on the inadequate management of personal property overseas, which has resulted in missing property, and inadequate controls on inventories and over drugs and medical supplies. What changes has your office recommended over the years to correct these problems?

We made recommendations regarding missing personal property and inadequate controls over inventory. OIG recommendations to the Department include:

- Provide detailed guidance for receiving and issuing personal property, including the separation of duties.
- Improve the Non-expendable Property Applications (NEPA) software, so that reconciliations can be conducted simultaneously at several inventory locations.
- Increase property and supply management training for U.S. and FSN employees.
- Require accountable individuals to document and retain inventory reconciliations at post for three years.
- Establish standard controls for managing property at posts' health units.

Why hasn't the Department been able to take these recommendations to reverse the property losses they have incurred?

Our recommendations called for the establishment of standards that are intended to enhance management's control over personal property. Although the Department has taken numerous actions including the establishment of an office responsible for directing proactive personal property measures, increased emphasis on inventory and reconciliation requirements, improved regulations and guidance, and increased attention to property management training for U.S. and FSN employees, we continue to find problems at the posts.

Typically, the Department will report that people in the field are not adequately trained, or that resources are not available to implement corrective action.

2. Your office has done much work on the inability of State to adequately manage its worldwide fleet of more than 3,000 automobiles. You have reported that vehicles have been misused and were missing or "lost"; that there were excess vehicles at some posts; that there are insufficient safeguards over fuel, gasoline coupons, and charge cards; that there is improper maintenance; and, that the accounting of vehicle disposal proceeds has been inadequate. Has State taken appropriate steps to correct these problems?

The Department has taken action on our recommendations, which deal with issuing criteria. But, how well the corrective actions have been implemented in the field can only be determined by monitoring. The Department's compliance with our recommendations is a step in the right direction, but problems still exist in the field.

In your estimation, what is the dollar amount of property losses each year?

The precise dollar amount of property losses is unknown, but a condition that OIG reported at Tokyo underscores the severity of the problem. Over the course of 16 years, three employees of a contractor firm stole nearly 4 million gallons of embassy fuel oil with an estimated value of more than \$3 million.

3. Your office has investigated the property missing from the residences of two U.S. officers in Panama. Can you describe the outcomes of these two cases and the disciplinary actions taken? To what extent, if any, have U.S. employees at other embassies been involved in cases of missing property and what disciplinary actions were taken by the Department?

One U.S. employee took government-owned residential furniture, worth over \$3,200, and shipped it at government expense with his household effects. The furniture was recovered in 1990, and the employee has since paid about \$4,000 for shipping and storage, and still owes another \$2,200 for the return shipment to Panama. OIG requested the Department to discipline this employee, but no action has been taken yet. Thus, the matter remains open.

The second employee had improperly shipped, with his household effects, embassy property worth about \$13,000 to his next assignment. Prosecution was declined in favor of administrative action. This individual was involuntarily retired in September 1991.

Since 1981, our investigations office has recorded 116 personal property cases involving U.S. employees. Thirty-seven cases resulted in criminal or administrative/disciplinary action.

With regard to the Tokyo fuel oil theft mentioned above, two employees of the contractor's firm were prosecuted in Japanese courts, a third was placed on probation, and another resigned but was never prosecuted. Partial judgments have already been awarded to the U.S. Government.

## RECOVERING OVERSEAS MEDICAL REIMBURSEMENTS

1. You indicate that the State Department could be losing between \$465,000 and \$840,000 per year in uncollected reimbursements. How long has this been going on; and, how much of the taxpayer's money has been wasted as a result of ineffective oversight and deficient accounting systems?

These numbers have been revised in our final draft report to between \$420,000 and \$795,000 per year in uncollected reimbursements. We believe this problem has existed since the current program of medical payment and reimbursement began in 1958 but it would be impossible to quantify the total amount of funds lost because there are no records documenting prior medical expenditure levels.

2. What do you mean when you say that the overseas posts lack incentive to follow Department policy on medical payment and reimbursement procedures?

Posts pay the expenses out of a Washington account, rather than their own funds. Because hospitalization expenses are paid from a central Departmental fund, posts have no incentive to ensure that claims are filed or that the Department is reimbursed for the expenses.

Similarly, because posts are not following up, employees have no incentive to file medical insurance claims and reimburse the Department.

3. How long has the current "system" of medical payments and reimbursements been in effect; and, how often are audits -- such as the one your office has completed -- conducted on overseas medical expenses; and who is responsible for these audits?

The Department's system of medical payments and reimbursements has been in effect since about 1958. The current audit is the first comprehensive review of this area, although a 1991 inspection of the Office of Medical Services also identified medical reimbursements as a problem.

The Office of the Inspector General is responsible for all State Department audits.

4. Have individuals who knowingly double billed the system been identified? What is the status of these employees?

We have identified 17 individuals who may have double-billed the system at the 7 overseas posts we visited. We presented these cases to the Department of Justice for criminal or civil action. The Department of Justice has chosen two of the cases for civil action and we are pursuing the remaining cases for collection and possible administrative action.



## OVERSEAS HOUSING STANDARDS

1. You have reported on the Department's failure to enforce housing standards. Are you encouraged that State is serious in meeting standards within two years?

We're encouraged by actions the Department has taken to have posts certify compliance with housing standards, and we plan to verify their actual compliance by conducting an audit on this issue in fiscal year 1994.

2. In the audits you have conducted, how have you closed recommendations on actions needed in correcting overstandard housing since the problems seem to exist for at least 19 percent of the posts overseas?

Our recommendation for the Department to establish a policy requiring an annual certification by Real Property Managers that all overseas housing assignments are in accordance with the housing policy and space standards was closed when the Department issued instructions to all posts to comply with the recommendation. Our fiscal year 1994 audit of housing standards will verify whether posts have indeed complied.

## CASHIERING AND OTHER FINANCIAL CONTROL ISSUES

1. Your office has long reported on worldwide disbursing and cashiering as well as on financial and accounting systems which are designated as high risk areas and material weaknesses targeted for correction in 1994. Do you believe the Department has the capacity to take serious corrective action in these areas?

Yes, and we believe that the Department is making significant progress in the areas of worldwide disbursing and cashiering. The nine current overseas disbursing centers will be reduced to three in early CY 1994, which will bring all disbursing officer functions under direct control of the Department's Chief Financial Officer (CFO). In addition, Department officials have informed us that the number and amount of unreconciled bank accounts has been greatly reduced.

Nevertheless, we would like to see more emphasis placed on monitoring and analyzing overseas financial operations; such control is vital in order to detect and prevent problems.

We're encouraged that the Department completed in 1993, its Information Strategy Plan (ISP), which lays the foundation for financial systems development over the next several years. Based on the ISP, we believe that the Department will continue to make progress in moving toward its goals of (1) migrating its mission critical systems to an open systems platform and (2) full integration and standardization of its financial systems. However, the major results of this effort will not take effect for several years.

2. If the answer to these problems was merely to place more resources in personnel training there would be more of a reassurance that most of these problems could be addressed. But what about multiple computer systems which apparently don't interface with one another. Can these be easily corrected?

No. Developing an integrated financial management system concurrent with moving away from proprietary hardware requires defining the financial requirements necessary to support the Department, determining what systems and databases are needed to support those requirements, determining the technical systems required to run the databases, and deciding on the appropriate information and financial management organizations to support the

development and management of these activities. Much of the project work is just beginning. The Department estimates that it will take until FY 1999 for full implementation of the new system.

3. What assurance do you have that the Department is making a good faith effort to correct these high risk areas by 1994?

Based on the Department's performance in the past few years, for example, reducing the number of disbursing centers from 22 in 1989 to 9 today, we believe the Department is making a good faith effort to correct many of the disbursing and cashiering deficiencies. We plan to monitor its progress through the audit compliance process.

In fiscal year 1994, we intend to conduct a review of the Department's efforts in planning and developing the integrated financial management system, in order to determine if the Department's approach to these problems is appropriate.



United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-254659

September 2, 1993

The Honorable John Conyers, Jr.  
Chairman, Legislation and National  
Security Subcommittee  
Committee on Government Operations  
House of Representatives

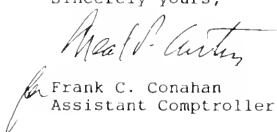
Dear Mr. Chairman:

In reply to your July 26, 1993, letter, we are providing our responses to your follow-up questions on issues discussed in the Subcommittee's July 13, 1993, hearings on the State Department's management of its overseas embassies. Our responses address your questions concerning real property management, contracting and procurement, staffing and training, personal property, overseas medical expenses, housing standards, cashiering and other financial controls, and the views of embassy officials in Mexico City, Mexico, on our report dealing with management weaknesses at that post.

We appreciated the opportunity to testify on this important subject and look forward to working with you in the future on issues of interest to the Subcommittee. Major contributors to our responses were Lynn Moore and John Townes.

If we can be of additional assistance, please contact Joseph E. Kelley at (202) 512-4128.

Sincerely yours,

  
Frank C. Conahan  
Assistant Comptroller General

Enclosure

GAO/NSIAD-93-280R Management of Embassies

REAL PROPERTY MANAGEMENT

1. GAO has been reporting on the problems of overseas real estate and construction for over 30 years. GAO has indicated that State has made some improvements to correct some of its chronic problems in dealing with overseas real property. Do these changes show promise?

GAO response: As noted in our December 1992 high-risk series report on management of overseas real property,<sup>1</sup> after many years of neglect, the Department has recognized the urgency of improving its management of overseas real estate programs and is taking action to correct past problems. We concluded that these actions, including establishing construction priorities and value engineering programs, hiring additional qualified staff, determining the maintenance conditions of posts worldwide, establishing regional maintenance centers, and creating a facilities maintenance skill group within the foreign service, hold promise. However, we also noted it is important that Department officials continue their commitment to management reform and oversight of post activities if State's chronic problems in managing real property are to be resolved. We plan to review the status of reform efforts in 1994.

2. Considering the Department, through FBO, manages about 8,300 leased properties and 1,750 government-owned properties at nearly 300 locations worldwide worth approximately \$8-\$10 billion, do you believe the State Department has attached adequate importance to seeking immediate short-term and long-term corrective actions?

GAO response: As indicated above, we believe State's actions hold promise, particularly in the short-term. However, it is important to recognize that weaknesses in real estate management have been entrenched in the Department for decades. Some of the key improvements that have been initiated will take years to implement, and continued oversight and monitoring of progress will be needed. In addition, State may face obstacles in fully implementing its actions. Likely challenges include funding availability and shifts in foreign policy objectives. As noted in our high-risk series report, the added workload and costs associated with opening new posts in the former Soviet Union are the kind of changes that, without continued commitment, could deflect attention from correcting past problems with overseas real estate management.

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<sup>1</sup>High-Risk Series: Management of Overseas Real Property (GAO/HR-93-15, Dec. 1992).

3. Over the 30 years you have reported on overseas real property issues, has the situation really improved or has the Department worn GAO out?

GAO response: Actions such as establishing regional maintenance centers and creating a facilities maintenance group within the foreign service were needed to begin dealing with the chronic problem of inadequate building maintenance. We believe that these and other actions indicate that the situation has improved, at least in terms of commitment to improvement; only time will tell whether these actions will achieve the desired results. However, we are encouraged that after many years of inaction, State has made some progress in improving its management of overseas real estate.

#### CONTRACTING AND PROCUREMENT

1. In the survey results, only 58 percent of the embassies responding to the questionnaire reported having a Competition Advocacy Program, which is designed to promote full and open competition in contracting, encourage acquisition planning, and provide a formal mechanism for the review and approval of justifications for restricted competition. Were the other 42 percent of embassies cited for not competing consistent with State guidance and Federal regulations?

GAO response: The questionnaire did not ask if the embassies had been cited for noncompliance with State guidance and federal regulations regarding contracting and procurement. However, we believe that the lack of a competition advocacy program may indicate insufficient attention to compliance with applicable guidance and regulations on competition.

In 1988, State designated the administrative officer at each post as a competition advocate with responsibilities for promoting and encouraging full and open competition, challenging barriers to restrictive competition, encouraging and participating in the development of acquisition planning, and reviewing and/or approving justifications for restricted competition. Since then, both we and State's Inspector General have found weaknesses in embassy procurement systems, including frequent failures to fully compete procurements and/or to adequately plan acquisitions in advance. At some posts, administrative officers and other personnel having procurement responsibilities were not aware of the role of the competition advocate. Although embassies are not technically required to have a competition advocacy program, the policy directive designating the administrative officer as a competition advocate has not on its own achieved the desired result. We believe that a competition advocacy program at each embassy would help ensure that staff are informed of the objectives of the competition advocate and that maximum compliance with contracting and procurement regulations is achieved.

2. Did the 42 percent of embassies without a Competition Advocacy Program also lack vendor lists to identify potential sources for procurements, and did they also lack advance acquisition planning for goods and services at the embassies?

GAO response: The questionnaire did not ask about vendor lists. However, the data shows that many embassies without a competition advocacy program also did not prepare an acquisition plan. Other embassies indicated that either they did not have a competition advocacy program but conducted advanced acquisition planning or they had a competition advocacy program but did not prepare an acquisition plan.

A January 1991 audit of overseas procurement operations by the State Department's Inspector General concluded that the lack of embassy procedures to carry out the Department's competition advocacy program directly contributed to the large number of sole-source procurements overseas.<sup>2</sup> We believe that embassies' failure to have a competition advocacy program limits their ability to effectively promote competition, ensure compliance with regulations, and avoid sole-source contracts. Concerning the planning issue, we note that an April 1990 audit by State's Inspector General on the Department's controls over year-end spending<sup>3</sup> concluded that erratic, late, or nonexistent advance acquisition planning at overseas posts directly contributed to inefficient, wasteful, and improper procurement practices and excessive year-end spending. Embassies are currently required by State to develop advance acquisition plans for individual procurement actions. Although plans on a fiscal year basis are not required, we believe such planning would help avoid year-end spending problems and better match procurement requirements to the fiscal year budget process.

3. Can you recall some of the worst instances of contract and procurement abuses from the survey results?

GAO response: The questionnaire was not designed to identify contract and procurement abuses; rather, it was designed to determine if embassies had sound management controls that promoted competition, encouraged acquisition planning, and met the State Department's reporting needs.

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<sup>2</sup>Overseas Procurement Operations (State Inspector General, 1-PP-04, Jan. 1991).

<sup>3</sup>Year-end Spending (Phase II-Overseas) (State Inspector General, O-PP-016, Apr. 1990).

4. Respondents to your survey indicated that 30 percent of the embassies have not implemented the worldwide procurement database system. What effect does this have on daily embassy functions?

GAO response: Full implementation of the worldwide procurement database will bring State's overseas procurement system into compliance with the legislative requirement to make procurement data available to the Congress, the executive branch of the government, and the public through the Federal Procurement Data System. Although the impact of less than full implementation of the database on daily post functions is minimal, the Department's ability to oversee posts' procurement activities is diminished. The worldwide procurement database was designed to develop information on contractors, costs, and completion dates for overall management of the Department's procurements. This information is also useful for advance acquisition planning by the embassies.

#### STAFFING AND TRAINING

1. You reported that the supervisory general services officers at the Embassies in the Dominican Republic and Mexico were responsible for contracting and procurement, but they had not received any formal procurement-related training since the 1970s. How did this lack of training affect their ability to perform their duties?

GAO response: We did not assess the performance of individual contracting officers during our review. However, past audits of the Department's overseas procurement system by State's Inspector General have identified inadequate training of both U.S. staff and foreign service nationals as a key factor limiting the efficiency and effectiveness of contracts and procurements. We found weaknesses in procurement systems at the Embassies in the Dominican Republic and Mexico City during our review. In view of the substantial changes in procurement policy and regulations over the years, we believe that periodic formal training in procurement-related issues is critical for supervisory general services officers and others holding contracting authority (particularly those who have not received formal training in almost two decades) to effectively manage embassy contracting and procurement operations.

2. Staffing gaps in key U.S. management positions in numerous posts, including the Embassies in Turkey, Poland, Panama, and Barbados, were reported by GAO as having hindered administrative and management functions. Were the concerns of these posts communicated to Washington, and if so, what corrective actions did the Department take?

GAO response: Staffing gaps in key administrative positions are a systemic weakness in the Department's personnel system. Although State officials said that they would like vacancies to be filled as soon as possible, delays are encountered for a variety of reasons



(for example, language and other training of personnel prior to overseas posting). Embassy officials said they work with State's headquarters staff to fill authorized positions but accept staffing gaps as a fact of life. To compensate for staffing gaps, embassies frequently use part-time intermittent personnel and contractors or ask other U.S. foreign service officers to assume responsibilities for administrative duties. Personnel assuming these duties sometimes have limited skills or training in the positions they are assigned. State's Inspector General has concluded that (1) overall weaknesses in the Department's personnel system are reflected by the excessive gaps in replacements at the overseas posts and (2) the Department's Bureau of Personnel has not efficiently or effectively provided the staff resources needed now or in the future. In addition, as part of the Financial Integrity Act process, State has identified an acute shortage of skilled foreign service administrative staff overseas as a material control weakness. Corrective action to address the shortage of overseas administrative staff is not scheduled to be corrected until 1996.

3. According to your questionnaire, staffing gaps caused delays in critical tasks, forced staff to assume responsibilities for which they were not trained, and compromised embassies' ability to exercise control functions. Can you give us some examples?

GAO response: Embassy responses concerning the impact of staffing gaps on embassy operations identified the type of impact in general terms. Although respondents were not asked to include specific examples, many indicated that staffing gaps had increased the frequency of overtime and in some cases reduced staff morale. One post response indicated that the lack of critical staff at the end of the fiscal year had significant internal control consequences because inexperienced staff that are not adequately supervised improperly handle funds. During our review at individual embassies, we also identified specific examples.

- At the Embassy in Moscow, officials said that staffing gaps in authorized U.S. positions have occurred at all levels on a consistent basis, making it difficult to support growth in other agency programs in the country and to exercise adequate controls over State resources. We found inadequate controls over accounts receivables (travel advances, medical expenses, and personal phone calls) and personal property.
- In Barbados, the Embassy did not have the services of a budget and fiscal officer for 6 or 7 months in fiscal year 1992, which according to post officials, resulted in the lack of cashier verifications.
- In Turkey, staffing gaps in the buildings and maintenance and general services officer positions delayed routine maintenance and the performance of other property functions.

4. Sixty percent of the embassies responding to your survey reported increased workloads to support non-State agencies, even though their administrative staff levels remained constant or declined. With the possibility of a down-sizing of U.S. government personnel, will American representation overseas be adequate, and to your knowledge has any criteria been mentioned in which agencies see cuts?

GAO response: Any reductions in non-State personnel at U.S. embassies and consulates will reduce the workload of State's administrative staff. However, it is unlikely that personnel reductions in the near term will eliminate the problem of inadequate administrative staff at the overseas posts. State first identified the lack of overseas administrative staff as a material internal control weakness in 1988 and does not anticipate corrective action until 1996. We are currently reviewing U.S. staffing patterns overseas and the extent reductions in the U.S. presence can be achieved.

#### PERSONAL PROPERTY

1. In the surveys each post returned, was property management an area in which problems seemed most acute? If so, what seemed to be the areas of difficulties or frustration in keeping track of personal property?

GAO response: Embassy responses to the questionnaire indicated that personal property management is one of several areas of post management requiring continuing attention. Our work at individual embassies indicated that the major reasons embassies have experienced problems in keeping track of their property include poor record-keeping, a failure to comply with property regulations, a failure to fully implement State's automated nonexpendable property system, and a failure to hold responsible personnel accountable for missing property.

2. What actions should the Ambassador at each embassy take to improve controls and stop unnecessary losses?

GAO response: State requires that its embassies report losses exceeding 1 percent of the total property inventory to post property survey boards for adjudication. We believe that to some extent, the threshold encourages posts to tolerate losses of less than 1 percent, which over time accumulate to substantial losses. To tighten controls and demonstrate a commitment to solving the problem, each ambassador or chief of mission should adopt a policy of zero tolerance for property losses. Periodic reviews of property systems should also be conducted as part of an overall formal management improvement program to identify system vulnerabilities and corrective actions. When losses occur, responsible individuals should be held personally accountable for negligence or lapses in management controls.

OVERSEAS MEDICAL EXPENSES

1. How much do you estimate could be recovered through better follow-up procedures?

GAO response: In fiscal year 1991, State's expenditures for overseas medical expenses totaled about \$2.2 million and fiscal year 1992 appropriations available for medical expenses totaled about \$1.7 million. State had no reliable records from which an accurate estimate could be made of the amounts of expenses that should be recovered or are actually recovered. However, State officials noted that insurers typically cover 80 percent of authorized expenses. Using that percentage, the potential recoverable amount of fiscal year 1991 State expenditures would have been approximately \$1.76 million, and potential recoverable fiscal year 1992 appropriations would have been \$1.36 million. Assuming a portion of the expenses are returned to State, we estimated in August 1992 that as much as \$1 million could be recovered through better procedures. Estimates of State's Inspector General are somewhat less. However, we and the Inspector General agree that substantial amounts can be recovered through better controls.

2. Does this problem affect non-State agencies with staff assigned to overseas posts?

GAO response: We did not address the controls exercised by non-State agencies. However, State officials said that personnel of several other agencies participate in the overseas State medical program. State authorizes medical payments for such personnel but does not monitor the extent other agencies collect reimbursements. State officials estimated that the overseas costs for other agencies' participation in the State program will total about \$1.3 million in fiscal year 1993. If other agencies are not exercising sufficient controls, there could be additional funds that are not being recovered.

3. Are there any other areas at State where failure to or delays in aggressively collecting funds may be costing the government money?

GAO response: Yes, inadequate control over receivables has been a long-standing problem at State. For example, in an August 1988 report, we noted that State's overdue or delinquent travel advances totaled about \$15.4 million in 1987.<sup>4</sup> Since then, State has identified inadequate controls over travel advances as a material weakness under the Financial Integrity Act process. During a 1991 audit of the receivables function, State's Inspector General found

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<sup>4</sup>Internal Controls: State Department Needs to Improve Management of Travel Advances (GAO/NSIAD-88-178, Aug. 15, 1988).

that because of inadequate reporting and other weaknesses, there was no assurance that receivables (funds owed to the Department for reimbursable services, loans, overpayments, and other expenditures) were being collected. Our review of embassy management identified continuing weaknesses in controls over accounts receivable at individual posts, for example, we found inadequate controls over travel advances and personal phone bills at the Embassy in Moscow.

#### OVERSEAS HOUSING STANDARDS

1. You have been reporting on overstandard housing for nearly 20 years, yet posts responding to your survey indicate that almost one out of five housing units currently exceeds space standards overseas. Over one-half estimate that full compliance with housing standards will take more than 2 years. Is there any hope that the Department will meet the standards issued in 1991 within 2 years?

GAO response: Based on responses to our questionnaire and past problems with overstandard housing, we do not believe that State will be in full compliance with its housing standards for many years. State faces several obstacles to fully meeting the standards in the short term. For example, some overseas properties that exceed the standards are under long-term lease, and time will be required to replace them; others are relatively inexpensive and are retained for economic reasons. In addition, State has cited security concerns and the limited availability of acceptable properties in some foreign cities as obstacles to timely adherence to the standards. State's Office of Foreign Buildings Operations (FBO) has developed a process of reviewing and approving individual embassy housing profiles that identify the number of housing units at various ranks for projected staffing levels. This process is designed to help ensure compliance, but it has weaknesses. FBO's information systems do not identify the extent individual properties meet standards, and approval of a post profile does not ensure post compliance. For example, at the Embassy in Mexico City, although the post's housing profile had been approved, the Embassy did not have a system to monitor the degree of compliance with the housing standards. A subsequent inspection by State's Inspector General concluded that the mission faced major problems because of its inconsistent, poorly managed housing policy, which, did not conform to current housing standards. As in other management areas, most posts need to place more emphasis on compliance with standards.

2. Does FBO exercise the necessary oversight to ensure posts' compliance with the 1991 standards?

GAO response: As noted above, FBO's information systems do not indicate the extent individual housing units meet standards. Current FBO processes to monitor compliance include the approved profiles for projected occupancy at each post, visits by FBO area management personnel to individual posts, and a lease waiver

process requiring FBO's approval of units that exceed size or cost standards. We have not recently conducted a review of these processes; however, we found in our past work that FBO's area managers had not placed sufficient priority on monitoring of post activities. In our 1994 review of the management of overseas real estate we will review the adequacy of oversight.

#### CASHIERING AND OTHER FINANCIAL CONTROL ISSUES

1. In a November 1992 report, you concluded that financial management problems at State were serious, long-standing, and widespread, and your work at overseas embassies supports this conclusion. Apparently State is making a sincere effort to improve its financial management. Is State making adequate progress?

GAO response: We believe State is making some progress in sorting out problems with its financial management systems. State is in the early stages of planning and determining what kinds of financial information is needed, establishing goals, and designing system parameters. However, corrective action to deal with a myriad of problems--lack of a standardized general ledger, deficiencies in data quality, inadequate interface of various domestic and overseas systems, and inadequate support of mission performance--is not scheduled until 1999, which is 16 years after State first identified problems with its accounting and financial management systems under the Financial Integrity Act process. The ability of State to develop a worldwide standardized and integrated financial management system is uncertain due to budget constraints, competing priorities within the Department, and its past difficulties in implementing an overseas financial management system.

2. Do you plan to review State's financial management improvement strategy to ensure that State is moving in the right direction?

GAO response: Yes, we plan to review the progress of State's financial management improvement strategy in fiscal year 1994. We have developed an expanded methodology to audit financial systems and plan to use this methodology as part of our review.

#### ADDITIONAL QUESTIONS

1. The GAO report on management weaknesses at the U.S. Embassy in Mexico City, Mexico, was forwarded by the Subcommittee to the State Department for comment. State asked Ambassador Negropponte to respond to the conclusions and recommendations of the report. Please comment on Ambassador Negropponte's June 16, 1993, letter to the Assistant Secretary of Legislative Affairs concerning the GAO report.

Background: The Ambassador's letter stated that (1) the loss of \$120,000 in personal property in 1990 and 1991 was an old problem

that the Embassy was aware of and that its subsequent efforts to improve controls had reduced losses to \$38,000 in 1992; (2) we used the findings of a prior post officer to indicate that oversight of consulate financial operations has been weak and since then, visits by Embassy personnel to the constituent posts indicate that cashier operations are in good to excellent condition; and (3) the mission management team has a proactive management philosophy that includes instituting improved procedures and holding periodic country team and administrative officer/staff meetings to act on issues of concern.

GAO's response: Overall, the Ambassador took the position that the Embassy's management practices were better than we had indicated in our report.<sup>5</sup> Such a position seems inconsistent with the Embassy's historical pattern of management weaknesses described in our report and a recent Inspector General inspection at the post,<sup>6</sup> which concluded that (1) the Embassy is not well run administratively and (2) senior administrative officers and the Embassy executive office must more effectively address the management issues facing the post. Although the property losses in 1990 and 1991 could be viewed as an old problem, they resulted from an almost total lack of control over property at that time. We agree that property losses of \$38,000 represent an improvement over prior year losses. However, we also believe that property losses of \$38,000 are not acceptable. We believe that ambassadors should adopt a zero-tolerance policy on personal property losses. Concerning the adequacy of cashiering operations, we noted in our report that Embassy officials had not systematically reviewed cashier operations at the consulates. The most recent Inspector General report concluded that the abilities of the individual cashiers and their American supervisors ranged from poor to excellent, which further indicates that continued monitoring of cashiering operations at the consulates is needed.

We do not doubt the Ambassador's sincerity in stating that his staff have a proactive management improvement philosophy. However, we believe that mechanisms described by the Ambassador, principally periodic staff meetings to address issues of concern, are not sufficient to address major management problems in the long term. If they were, past management weaknesses such as significant property losses and current problems such as the poorly managed housing program could be avoided. As we recommended in our report, proactive management improvement processes should be formal, under the direction of the deputy chief of mission or other senior

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<sup>5</sup>STATE DEPARTMENT: Management Weaknesses at the U.S. Embassy in Mexico City, Mexico (NSIAD-93-88, Feb. 8, 1993).

<sup>6</sup>Embassy Mexico City, Mexico and Its Constituent Posts (State Inspector General, ISP/I-93-25, June 1993).

official, and provide for periodic assessments of key management areas.

2. Please comment on Ambassador Negroponete's March 9, 1993, letter to State's Director of the Office of Mexican Affairs concerning the GAO report.

**Background:** The Ambassador's March 1993 letter is similar to the June letter in that it criticizes us for "sensationalizing" past weaknesses and not giving the Embassy adequate credit for efforts to remedy problems. Our report described in detail the personal property losses in 1990 and 1991 (\$120,000), the number of items missing (more than 3,000), and the fact that the Embassy did not report the losses to State headquarters as required by State regulations. We do not view reporting on such losses as sensationalizing. In addition, our report identified a number of corrective actions taken by the post to improve management of personal property and other areas.

The Ambassador's letter incorrectly refers to State's standards for property control. Specifically, the letter states that although the write-off of \$120,000 in personal property was a serious loss, it was "still less than the 3 percent of the overall inventory tolerance standard of the Department." According to State property officials, the only percentage standard that has existed is the current requirement for reporting of losses greater than 1 percent of inventory to the post property survey board. The Ambassador referred to the property loss of \$38,000 in 1992 as "an achievement that has earned praise rather than criticism." State property management officials agree with us that a loss of \$38,000 should not be praised.

3. Are Ambassador Negroponete's responses indicative of a particular culture pervasive at the State Department, which has allowed managerial concerns to be ignored for over three decades?

**GAO response:** Historically, State has not regarded management as an important issue. Personnel that violate regulations have not been held sufficiently accountable for their actions, and incentives for good management have been lacking. The numerous audit findings by us and State's Inspector General have over the years repeatedly confirmed the lack of adequate attention to management concerns in the Department. The Ambassador's response indicates that (1) attention to management problems continues to be largely reactive at that post and (2) a greater commitment to proactive improvements is changed.

4. Can such attitudes be changed given the long-standing problem of officials ignoring oversight matters?

GAO response: We believe that there is room for cautious optimism. For example, FBO has made progress in addressing the endemic facility maintenance and other real estate management problems facing State overseas. Similarly, officials in State's central property management office have begun to periodically visit embassies to assess the quality of personal property management, and opportunities for improvement at several posts have been identified. However, because State has historically displayed a pattern of poor management and recent audits and inspections have identified weaknesses in overseas management systems, continued emphasis on improvements is needed. In testimony before the Legislation and National Security Subcommittee, we stated that additional progress requires that (1) each overseas embassy adopt a formal management improvement program, (2) ambassadors and other embassy managers endorse the program and pay close attention to its progress, and (3) top State management display a commitment to improving management controls.

5. Can we expect that appropriate accountability will be exercised by Ambassadors and Heads of Missions in the future?

GAO response: Congress and the taxpayer should expect appropriate accountability. Better accountability can be achieved if top State management officials demonstrate a strong and continuing commitment to improving management controls and if ambassadors and other embassy managers pay more attention to management issues.

6. Should Congress micromanage State operations until State assigns appropriate attention to management priorities?

GAO response: Probably not, assuming State demonstrates progress and commitment to improving overseas management. However, because of State's historical lack of attention to management concerns and continuing management weaknesses in a number of areas, close congressional monitoring and oversight will be needed. If progress is not demonstrated, the Congress may need to become more involved in State's management. For example, Congress may wish to consider earmarking funds for improved financial management and other key systems to ensure improvements are in fact carried out.

(462616)



United States Department of State


Washington, D.C. 20520

September 1, 1993

Dear Mr. Chairman:

Following the July 13, 1993 hearing at which Patrick Kennedy testified, additional questions were submitted for the record. Please find enclosed the responses to those questions.

Sincerely,

  
Wendy R. Sherman  
Assistant Secretary  
Legislative Affairs

Enclosures:  
As stated.

The Honorable  
John Conyers, Jr., Chairman,  
Subcommittee on Legislation  
and National Security,  
Committee on Government Operations,  
House of Representatives.

Follow-up Questions from John Conyers, Jr., Chairman,  
Legislation and National Security Subcommittee,  
Committee on Government Operations,  
House of Representatives  
Hearing of July 13, 1993

Questions on Real Property Management

Question 1: In testimony before this Subcommittee in June 1991, GAO reported on continuing problems in State's management of overseas real property. In December 1992, the Comptroller General listed overseas real estate and construction as one of 17 federal program areas susceptible to waste and mismanagement. How far has the Department come in making necessary improvements in the program since our June 1991 hearing?

Since the Comptroller Report in December 1992, what corrective actions has the Department taken to: correct lax oversight by FBO; improve information systems in order to maintain accurate financial data; improve maintenance of buildings overseas which at one point required \$350 million; and improve FBO planning in order to develop facilities plans at key posts to link the Department's foreign policy and security objectives?

Answer: The Department has made substantial progress since GAO characterized management of overseas real property as deficient. The December 1992 GAO Report to the Congress on "high risk" areas repeats some earlier criticisms, the report also endorses the Department's efforts, acknowledges their effectiveness and timeliness, and urges continued executive and legislative action for them.

Specifically, the Department has made specific improvements in the following areas cited in the GAO's 1991 testimony and their 1992 Report:

Housing Policy and Program: The Housing Policy and Standards issued in June of 1991 provide for greater A/FBO oversight and enforcement. The Department removed this as a material weakness at the end of 1991.

Rehabilitation and Maintenance of Buildings Abroad: The Department has in place a program to identify maintenance, repair, and rehabilitation requirements, along with the programming and management capabilities necessary to ensure successful project execution. The Department plans to remove this activity from the list of material weaknesses this calendar year -- three years ahead of original schedule.

Questions on Real Property Management, Continued

- o Lack of oversight and planning: A/FBO has issued several internal policies and procedures and improved information systems to strengthen oversight and planning responsibilities. Post visits by Area Managers and internal audit program teams as well as other maintenance survey and inspection programs provide additional oversight. A Planning and Programming Division has been established, and a Five Year Facilities Planning process has been instituted.

With regard to the Maintenance and Repair of Buildings Overseas, we have aggressively implemented a three-pronged approach and expect to have this material weakness removed from OMB's "high risk" list by the end of this calendar year.

First, we have determined the condition of overseas facilities and monitored maintenance needs. One hundred and seventy-one (171) of the 176 post maintenance surveys planned have been completed.

Second, we have increased the professionalism of maintenance at our overseas posts. The Department has established a new Foreign Service Overseas Facility Maintenance Program Specialist skill group, central, hands-on maintenance assistance centers and additional specialty maintenance contracts. We now have 72 facility maintenance specialists hired and in place or in training.

Third, we are extending the life of our facilities through improved maintenance and the chancery life extension program (Facility Rehabilitations). A/FBO has established more aggressive procedures to identify, fund and accomplish more maintenance projects in less time than ever.

The initial deadline to resolve this material weakness was calendar year 1996. With the support of OMB and the Congress, the Department has accelerated the timetable and hopes to report the weakness closed by the end of calendar year 1993.

Questions on Real Property Management, Continued

In addition, A/FBO has taken several steps to improve facilities planning. First, the staff of the Planning and Programming Division has increased from a 1991 base of six positions (division chief, secretary, two planners and two program analysts) to a current staff of 18 (division chief, secretary, two support personnel, ten professional planners and four program analysts.) Most of the positions are now filled and the employees have been oriented and are actively engaged in facilities planning studies.

Second, A/FBO has supplemented its in-house expertise in facilities planning with outside experts such as HOK/Berger, whose technical services have been obtained through an indefinite quantity contract.

Third, A/FBO has undertaken or is currently working on a large number of facility plans worldwide covering cities such as: Bombay, Dhahran, Jeddah, Rome, Abuja, Hong Kong, Islamabad, Moscow, Paris, Seoul, Lusaka, Abu Dhabi, Manila, Jakarta, and Dhaka. Countrywide plans are underway in China, Germany, and Mexico. These posts have been targeted for planning studies because major facilities and/or budget decisions are required at each of the posts.

Fourth, A/FBO is completing a comprehensive review of all overseas posts to identify those posts which should be the subject of facilities planning studies. Included in the review of each post is the security situation and political factors which may call for major changes in property and facility holdings. This review, done in consultation with the Bureau of Diplomatic Security and the regional bureaus, will be updated periodically.

Questions on Real Property Management, Continued

Question 2: The GAO reported that inadequate planning and coordination have contributed to delays and cost increases in the \$2.1 billion security construction program. Since 1986, FBO has completed only 8 of the 57 projects under this program. In addition, FBO has not adequately assessed contractor's performance and has lacked sufficient staff to manage construction. Does the Department plan to re-examine the Diplomatic Security Construction Program to see if it still meets the U. S. needs in a post Cold War environment?

If State has assessed the merit of the Diplomatic Security Construction Program, how will it change?

If the program does change, how much money can the U.S. Government and taxpayers save?

Answer: In compliance with an earlier Congressional directive, the Department convened a distinguished panel to review the Omnibus Act of 1986 and Inman recommendations relating to construction security. The final report was signed by Secretary of State Eagleburger and transmitted to appropriate House and Senate Committees in December 1991.

A key finding of the report was the need for the Department to reach beyond risk avoidance, toward prudent management of risks, which cannot be reasonably avoided. The report validates the continuing need for security in the Department's capital construction program, and states that economies are feasible in several areas of design and construction.

Subsequent to submission of the Panel Report to Congress, the Department has taken the following actions:

- o A new Physical Security Standards Handbook was developed incorporating recommendations of the Inman Review Panel. These standards are currently under review within the Department. Construction Security Standards have also been revised, cleared by the Bureau of Administration (FBO) and Diplomatic Security, and appropriate tenant agencies. They are currently under review by Department Regional Bureaus. Promulgation is expected shortly.

- o Under the auspices of the Overseas Security Policy Group (OSPG), a Risk Management Working Group was convened to recommend options for adopting the Panel's recommended methodology for overseas security programs. The Group, chaired by the Director Central Intelligence Center for Security Evaluation, is focusing primarily on technical security programs and countermeasures. Recommendations will be presented to the OSPG at their September meeting.

Questions on Real Property Management, Continued

o Plans are underway to move away from "global" solutions for determining design criteria and preparation of individual Construction Security Plans in favor of development of a post specific, threat specific analysis. This analysis would be undertaken prior to site purchase or any design work.

o The Department is studying the concept of risk management as an alternative to risk avoidance which the Inman Review Panel perceived as having influenced the original development of the Department's security standards.

It is becoming increasingly clear that the philosophy underlying the (Inman Review Panel) report is gaining government-wide acceptance. For example, the Secretary of State and the Director of Central Intelligence recently directed the establishment of a Joint Security Commission to consider a wide range of security-related issues. There is also mounting evidence that other key foreign affairs agencies recognize the need for a sound process for determining building security requirements.

With the proposed promulgation of revised construction security and physical security standards, we believe that significant costs can be avoided in the Department's capital construction program. Until these revised standards are promulgated and implemented, however, the magnitude of cost avoidance cannot be determined.

Finally, we should point out that the Department no longer distinguishes between Inman and non-Inman projects. For historical purposes, however, the current status of the original 77 projects is as follows: 13 have been completed, 7 are in construction, 3 are in the design phase, 5 are in site acquisition, 29 are on hold or deferred, and 20 have been cancelled.

Questions on Real Property Management, Continued

Question 3: What is the average time to design and complete a construction project?

FBO initiated a number of efforts aimed at improving project delivery time, including a systematic review process to begin controlling unnecessary changes during design and construction and the use of standard criteria/specifications. Where does FBO stand on implementation of these and other project time saving efforts?

Answer: The average time to design a typical 75,000 to 100,000 gross square foot new office building (NOB) is 24 months. The construction duration for this typical NOB is between 30 to 36 months depending on the site conditions, security requirements and geographic location in the world. (Much of the time delay experienced in the past was due primarily to the difficulty in acquiring appropriate sites.)

FBO continues to have an aggressive program to reduce design and construction completion times and costs. Some of the efforts which have been implemented as standard FBO policies and procedures are as follows: configuration management procedures which require all significant design and construction changes be evaluated after designs reach 35 percent completion; value engineering reviews to determine if more cost effective designs and materials are appropriate and can be incorporated; and standardization of architectural and engineering design criteria and specifications. Changes to security standards and criteria which could reduce design and construction costs have been recommended and are currently being evaluated by the Department.

Questions on Overseas Housing Standards

Question 1: Beginning in 1991, State established new housing standards to address the problem of overstandard housing. By standardized measurement criteria it allowed posts to establish long-term housing inventories based on staff demographic profiles. Further, all real property managers were required to certify annually to the Chief of Mission that the post housing program is in compliance with FBO policies. FBO however, does not verify certifications by the Chiefs of Mission. Why haven't you required Chiefs of Missions to verify certifications?

Answer: Post compliance with the Interagency Housing Policy is monitored through the Department's Office of the Inspector General which conducts scheduled inspections of all posts.

Department of State regulations (6 FAM 721.3-1) require that the Single Real Property Manager (SRPM) at post, usually the senior Administrative Officer, certify in writing to the Chief of Mission (COM) that all leases acquired or renewed and housing assignments made during the fiscal year for the Embassy and constituent posts were processed in compliance with the Interagency Housing Policy. Any exceptions and explanations to the policy are noted in the certification. The SRPM's certification is subject to audit and must be maintained in post files for three years. If the COM has concerns about the certification he or she can call them to the attention of the OIG inspectors who can verify the accuracy of the certification.



Questions on Overseas Housing Standards, Continued

Question 2: The posts estimate that about 19 percent of their housing units currently exceed standards. Does the Department have a data base that accurately monitors and reports on the number of units, by post, that exceeds standards? If not, how can State effectively monitor compliance with the standards?

Answer: In assessing post compliance with the Interagency Housing Policy, the Department is concerned with monitoring whether a post's profile is appropriate. The profiles were put in place in 1992 with the requirement that posts align their current inventories of housing with the approved profiles. We expect that by 1995 more than 50% of post housing inventories will comply with the approved profiles. This is the time we estimate it will take, on average, for leases to expire on residential units which are not authorized under the approved profiles.

The Department's Real Estate Management System (REMS), in combination with an analytical program, has the capability to determine if a post housing inventory matches the approved post housing profile. An enhancement to the Department's automated post-based real estate system will provide posts with the same capability to compare housing inventories against approved profiles.

Question 3: In which countries are meeting the current housing standards most difficult? Why?

Answer: Gross economic inequities in much of the Third World, coupled with extended family traditions and local customs, make it difficult for posts to find housing that meets standards in the singles and couples category. There is very little housing constructed or available on the rental market for one or two occupants.

### Staffing and Management Training

Question 1: What is the Department's current policy for formal training of U.S. staff assigned to overseas administrative and management positions?

Why have U.S. officers often not had formal training for years?

Are U.S. officers required to periodically attend core training courses to ensure they are kept-up-to date on policy and procedural issues?

Does the Department plan to expand the formal training requirements and opportunities for U.S. staff assigned to administrative and management positions?

Answer: Recognizing that training is an important part of any assignment, the Department strives to give officers assigned to overseas administrative positions all necessary training consistent with their anticipated duties. For example, an officer assigned to a financial management or personnel position lacking requisite background would be scheduled for Foreign Service Institute (FSI) training in those fields prior to reporting to post. Although the Department attempts to give as much training as possible to employees, the need to fill service staffing gaps is an occasional impediment.

Some administrative employees may not have had formal training in recent years. If so, we try to schedule them for courses when they transit Washington between assignments. The Department also uses "modularized" general services and personnel courses to bring experienced employees up to date in their specialities. Others are selected for the Overseas Administrative Officer's Course which enhances the management skills of mid-career officers.

The Department has developed "certification" programs for administrative sub-functions such as financial management and personnel management that will require specialists in these areas to complete certain courses to become certified as fully qualified to carry out their duties. The Department has already initiated a program of required training to grant General Services Officers "standard name warrants" for contracting and procurement at overseas posts. We are exploring opportunities to expand training such as sending trainers overseas. Budget constraints limit our ability to increase training opportunities.

Foreign Service National Training

Question 2: Many of the overseas posts believe that the amount of formal training received by foreign service national staff is insufficient for them to properly perform their duties in areas such as contracting and procurement and personal property management. Why are the formal training needs of foreign service personnel neglected or at best, considered on an ad hoc basis?

Does the Department plan to expand training opportunities for foreign nationals having administrative responsibilities?

Answer: The Department has an active program designed to enhance the skills of its foreign national employees. In some cases we send key senior and mid-level employees to the same courses that American employees take in Washington. More often trainers from Washington and/or procurement offices overseas give regional courses designed specifically for personnel and general services support staff. The Regional Administrative Management Center in Paris, for example, has trained hundreds of foreign nationals to use a computerized property management system. Again, funding constraints limit our ability to expand training opportunities.

The Foreign Service Institute (FSI) just completed a pilot session of a new FSN small purchases and procurement course. The course was very well received by both FSNs and their supervisors. FSI plans to give additional sessions of this course in the next fiscal year. It will be combined with a one-week contracting session presented by the Office of the Procurement Executive (A/OPE) and offered in regional settings overseas.

Another initiative of FSI and the Bureau of Administration is the development of a correspondence course in personal property management for release in Fiscal Year 94. Other courses in general service operations and personnel management are under development to supplement the existing array of courses offered to FSNs in budget and financial management.

Staffing Gaps

Question 3: Why do posts experience significant staffing gaps in overseas U.S. positions and what is the Department doing to reduce the frequency and duration of such gaps?

Do staffing gaps reflect inadequate numbers of people to fill a given number of positions, or do they reflect a lack of control over the personnel selection and placement process?

Answer: The Department recognizes that staffing gaps are a problem and strives to minimize them to the degree possible. Staffing gaps exist and are exacerbated for a number of reasons, including some which are imposed upon the Department and are more difficult to control. Gaps occur based upon the personal situation of either the incumbent of a position and/or the individual assigned as replacement, for example, training needs (including language and other professional training), home leave requirements, and sudden loss of a medical clearance. In addition, there are broad, systemic factors such as shifting foreign policy priorities, opening of new posts which create unexpected new personnel requirements. Finally hiring restrictions due to budget constraints result in staffing gaps.

To ameliorate the effects of staffing gaps, we work closely with gaining and losing posts so that no mission is unfairly affected. For our smallest embassies (those that can least afford to sustain a gap) we follow a "contact replacement" policy that brings new assignees to post as close as possible to the departure of their predecessors.

## Questions Submitted by Chairman Conyers

Foreign Service National  
Personal Services Contracts

Question 4(a): What type of monitoring controls does the Department have over the number and types of foreign national personal services contracts entered into by the overseas posts?

Answer: Each post's management analyzes the level of PSC staff required to meet post needs. The respective geographic bureaus review the request in light of post size and available resources.

Second and third level reviews, to ensure that the work performed by these contractor personnel is appropriate and not inherently governmental, are made by the Bureau of Personnel's Office of Foreign Service National Employments and the Office of the Procurement Executive within the Bureau of Administration.

Question 4(b): Is there any criteria, such as U.S. staff/contractor or cost ratios, to determine how many personal services contractors individual embassies should have?

Answer: The number of such contracts is directly related to post needs and is limited by budgetary constraints. The post analyzes its requirements for administrative services based upon the number of personnel and U.S. Government agencies to be supported. It also determines what services can be obtained commercially - however this is often limited by security considerations and by the unavailability of reputable commercial entities in many developing countries.

Impact of Other Agency Presence on Department Workload

Question 5: State has often complained about its expanding workload to support the growth of other U.S. agencies at overseas missions. At which posts is this a particular problem and what is the Department doing to address the issue.

Answer: The growth of other U.S. Government agencies is a worldwide occurrence. It is not limited to any particular country or group of countries.

For a number of years the Department has proposed revision to the Foreign Affairs Administrative Support (FAAS) system to provide for full reimbursement of expenses incurred in supporting other agencies. The provision of necessary services to other U.S. Government agencies engaged in overseas programs furthers U.S. national interests and would not be a problem for the Department if adequate personnel and financial resources were available. We are currently working with the House Appropriations Committees Survey and Investigation Staff on this issue.

Questions on the Adequacy of Recovering  
Medical Reimbursement of Overseas Employees

Question 1: GAO has recommended that the State Department develop a system to identify and report on the status of overseas medical expense payments, claims and reimbursements. Where does the State Department stand in the implementation of a tracking system such as the one recommended by GAO?

Answer The Office of Medical Services (M/MED) has initiated a tracking System in London and Paris. The system tracks all requests for medical assistance, the initiation of payments to providers, the initiation of claims to private insurers, and the recoupment of the private insurance payments against the amounts paid by M/MED also tracks all instances of medical payments as they become known at headquarters from requests made for medical services at other posts worldwide.

Worldwide implementation of the tracking and recovery system has been temporarily suspended pending release of the Office of Inspector General's (OIG) audit report that was undertaken as a result of the GAO audit findings of 1992. A draft report with recommendations was released on August 10, 1993. M/MED and the Bureau of Finance and Management Policy (FMP) are reviewing the preliminary audit report with the intent of incorporating OIG recommendations into future improvement efforts. To facilitate implementation of improvements, a task force has been established.

We plan to have improved procedures and systems in place worldwide by January 1994.

Question 2: Has this tracking system helped in recovering additional reimbursements?

Answer: The system now in use in London and Paris has definitely improved our ability to determine claims validity, payments, and reimbursements due. However, an integral part of the new system was a revision to the claims process that requires each employee to submit their claim to the private insurance carrier prior to requesting any action by the Department. This change has virtually eliminated the need for the Department to pay for medical treatment in the two cities. It appears that the change may result in significant decreases in Departmental outlays and workload.

Question 3: Have any State Department employees been disciplined for failure to remit private insurance carrier to the Government?

Answer: The OIG has uncovered potential cases of unwarranted retention of private insurance carrier fees during the course of their audit. OIG has indicated to FMP that approximately 50 potential cases will soon be referred to FMP for formal collection action. The OIG has indicated that they are presently working with the Department of Justice concerning an additional two cases.

Question 4: The GAO noted in their report that the Department's Office of Medical Services reported problems in accounting for payments for medical services provided to employees and dependents at medical facilities in the United States. What is the status of State's efforts to improve accounting procedures for domestic medical payments?

Answer: Since the GAO report was published, in 1992, M/MED has installed a complete tracking and claims audit system. The revised system incorporated reviews of the reasonableness of claims as well as tracking and processing within M/MED. The results have been good. Expenditures for non-treatment claims are down \$400,000 from FY 1992. For treatment claims, there has been a reduction of the amount paid by 30%.



CONTROLS TO PREVENT LOSS OF PERSONAL PROPERTY

Question 1(a): How could the Embassy in Mexico lose items such as lawn furniture, refrigerators, shredders, and automated data processing equipment?

Answer: Embassy Mexico City reported that lawn furniture, refrigerators, shredders and ADP equipment could not be located during the annual inventory. Although poor documentation of property transactions at the post makes it impossible to prove, it is likely that many discrepancies are due to a failure to follow procedures and poor recordkeeping practices rather than theft. Items like lawn furniture and refrigerators are used in residences that are not inventoried annually -- only when occupancy changes hands. If a replacement refrigerator were issued to a residence without proper documentation, it would show up as missing, and appear as an overage in a future inventory. Any number of errors in recording disposition of property or in conduct of the inventory itself can result in a discrepancy. Certainly the size of Mexico's shortage was unacceptable, but some discrepancy with property records is almost inevitable at a large post such as this which at that time had an inventory of some 18,000 items of nonexpendable property at 337 locations.

Question 1(b): GAO's report on management weaknesses at the post also noted that property losses in the latest inventory were \$38,000. Can you describe the property items lost and the reasons for the losses?

Answer: A variety of property items were not located during the latest physical inventory at Mexico City, including a large number of typewriters, automated data processing equipment, shredders, and safes. During the reconciliation process, efforts are made to find missing property or determine why property was lost. While the reported discrepancies could not be accounted for, discussions with embassy personnel and experience with other inventory reconciliations suggest a number of reasons why specific pieces could not be found:

- o Bar code labels used with the Department's automated inventory system contain a number that is attached to accountable property. The bar code labels are scanned during inventory and the results are compared with property records. In some cases, bar code labels had fallen off making it impossible to identify property. The property then has to be re-labelled, causing both an overage and a shortage.
- o Some discrepancies result from record keeping errors related to routine property transactions. For example, ADPE might be transferred to a consulate in Mexico without proper documentation; property might be turned in for service without documentation, replaced, and the original item cannibalized for spare parts; legal disposition of property through sale may have occurred and the property never removed from the accountable property records.
- o Other discrepancies result from flaws in the inventory itself. For instance, during inventories at large locations property is sometimes moved from a not-yet inventoried location to one that has already been checked. A piece of equipment is locked in a cabinet during the inventory count or a room or building is forgotten and so it appears missing.

Question 1(c): Was there any evidence of theft or malfeasance; and if so, what actions were taken to hold accountable those persons responsible for the losses?

Answer: The Supervisory General Services Officer at Embassy Mexico stated that there was no evidence of theft or malfeasance regarding these missing items.

Question 1(d): What actions has the Embassy taken to improve property controls?

Answer: Embassy Mexico reported that in June, 1993 an American employee was hired to manage its warehouse operation. This action had been strongly recommended by GAO auditors.

Question 2: What have been the major reasons for property losses in Panama?

Answer: It is impossible to identify one factor which caused discrepancies in the personal property inventories in Panama. The losses have been significant and resulted from various reasons such as the following:

- o Accountable property records were maintained on manual cards until January, 1993. The manual system was labor intensive and prone to errors. Embassy Panama has now fully implemented the Department's automated inventory system, Nonexpendable Property Application (NEPA). Special efforts have been put into training personnel on the system.
- o Personal property was placed in various apartments and government-owned and leased facilities without proper documentation. The lack of documentation caused many items to be listed as missing during inventories.
- o The warehouse complex is several miles from the chancery and located in a high crime area. Intruders have been observed and chased out of the complex in the early morning hours. The warehouse has subsequently had its exterior fences repaired, steal gratings welded above areas suspected of providing access, new lights added, and guards have received special training from the Regional Security Officer.
- o U.S. military action in 1989-1990 disrupted operations for a considerable length of time. As a result, the post went through an extended period with a drawdown of personnel. Out of necessity, property was re-located to accommodate these extraordinary circumstances and record keeping suffered.
- o There has been a lack of continuity in personnel responsible for property management over the years. For example, during 1991 to implement budget savings, the warehouse staff was reduced by 7 positions or about half the staff.
- o In addition to State's ongoing business, there are about 15 other agencies that draw administrative support from the Embassy. During the time when warehouse personnel were being reduced, the programs of such agencies as NAS and ICITAP were rapidly expanding placing increased workloads on State staff without additional resources.

Question 3(a): GAO's testimony indicates that the Department has taken a number of actions to improve personal property management, including reviews of post property systems by the Property Management Branch. Does the Property Management Branch have sufficient staff and resources to adequately assess overseas systems and provide assistance?

Answer: The Property Management Branch is currently authorized five positions and responsible for establishing policy for the management and control of personal property, developing and implementing property management regulations, and providing guidance and training for the Department, as well as reviewing property systems. While more could be accomplished with a larger staff, the branch has adequate resources to meet its basic mission.

Question 3(b): Have system reviews by the Property Management Branch identified serious weaknesses in post controls; and, if so, what have been the major problem areas and at which posts have the most significant deficiencies been identified?

Answer: The Property Management Branch staff began reviewing property systems in 1987 and identified serious weaknesses at numerous posts. Through follow up visits and a requirement that posts certify that corrective actions have been taken, most of these deficiencies have been corrected. The major problem areas have been incomplete physical inventories and reconciliation, a lack of standard operating procedures, inadequate internal controls, a lack of training in property management techniques, and incomplete documentation of property disposal actions.

Over the last two year period, the most significant deficiencies have been identified in Hamburg, Valletta, and Naples which involve the submission of a falsely signed inventory certifications. False certifications were reported by the Assistant Secretary to the Director General for appropriate personnel action.

Question 3(c): Which posts are considered to have the best managed property systems?

Answer: Of the posts reviewed within the last two years, the best managed are New Delhi, London, Riyadh, Manama, Colombo and Antigua.

CONTRACTING AND PROCUREMENT

Question 1: It appears that the overseas posts continue to have significant difficulty in meeting the competition in contracting procedures that are designed to ensure goods and services are obtained at the lowest price. Why does this problem continue and what if anything can the Department do to better ensure compliance with laws and regulations governing competition?

Federal regulations note that the lack of acquisition planning is not a valid reason for noncompetitive procurements. What needs to be done to ensure posts better plan their procurements?

Answer: Since the Department implemented a competition in contracting reporting requirement at our posts in 1989, we have noted a marked improvement in the extent of competition conducted by overseas contracting personnel. When assessing our overseas competition practices, it should be recognized that many foreign missions are located in areas where unique business practices and the lack of responsible contractors strongly impact our business practices. However, we fully recognize the undisputed parallel between advertising, full and open competition and cost-conscious contracting. Consequently, we are actively emphasizing full and open competition and discouraging the attitude that restricted competition is an acceptable alternative. With the rescission of all overseas contracting officer authority that exceeds \$100,000, there will be a significant increase in the number of solicitations and contracts submitted to the Office of the Procurement Executive for independent review and approval. The extent of competition will, of course, be integral to this oversight. Performance standards for Contracting Officers have been issued as procurement policy which incorporate competition requirements to enhance accountability for competition and the Department recently created a recognition program for achievement in competition in contracting. It should be noted that 79.4% of overseas contract work is fully competed.

We concur that deficiencies have been identified in acquisition planning. Senior management will endorse a more proactive approach to acquisition planning through Department Notices and overseas cables. Furthermore, the Department's policies and procedures will be incorporated into the Department's acquisition regulations and Foreign Affairs Manual. In conjunction with our initiative to promote acquisition planning, the Office of the Procurement Executive recently assumed responsibility for publishing notices of overseas contracting opportunities in the Commerce Business Daily. This effort should significantly increase interest in overseas contracting opportunities. Additional improvements have been made recently to enhance the effectiveness of the planning system overseas. The revised General Services Officer course provides detailed instructions on planning, and students are required to develop a procurement tracking system as a practical exercise. We are confident that these initiatives will enhance the ability of posts to comply with all Federal guidelines on competition in contracting.

Question 2: "GAO's reports and testimony indicate that a number of the overseas posts have not successfully implemented the Department's worldwide procurement data base system a critical element of State's effort to improve reporting and reduce the vulnerability of overseas systems. When does the Department anticipate that the system will be fully operational?"

Many posts have criticized the system as having only limited usefulness as a procurement management tool. Why hasn't State developed an automated procurement management system to ensure posts have adequate oversight over their procurement actions?"

Answer : The Worldwide Procurement Database system was implemented and fully functional in FY 1992. We realized a 100% response in FY 1992. The system provides information on all domestic and overseas procurement actions. The system has been recognized by the Federal Procurement Data Center (FPDC) as one of the most effective systems in the Federal Government. The primary objective in implementing the Worldwide Procurement Database was to devise a mechanism for reporting contracting data to the General Services Administration. The system is viewed, however, as much more than a reporting system by many offices in the Department, primarily, the Office of the Inspector General (OIG). To date, we have been able to reasonably satisfy OIG's numerous requests for various contracting information.

Some overseas posts do not have adequate software capability to use the automated WWPDB system. The Department considered this when developing the system, designing a manual system for use by posts, who transmit hard copy procurement data to A/OPE for entry into the WWPDB and the Federal Procurement Data Center.

Both domestic and overseas personnel have been trained to use the system, and this topic is included in the new Foreign Service Institute General Services Officer's Acquisitions Course Module to emphasize the importance of proper reporting by overseas posts.

The Office of the Procurement Executive (A/OPE) conducted a market survey and observed demonstrations of various procurement software as part of an ongoing effort to improve service to domestic and overseas contracting activities. The FY 1994 budget request for A/OPE included funding for the purchase of such an automation tool, to enable us to make further improvements in procurement management.

Question 3: GAO's report notes that although foreign service national employees are typically responsible for important steps in the procurement process, only limited formal training has been provided to ensure they have sufficient skills to perform their responsibilities and comply with U.S. regulations. What improvements in formal procurement-related training does the Department have underway or plan to implement?

Has the Department identified how many foreign service nationals need such training, and if so, to what extent will current/planned training programs meet those needs?

Answer: The issue of training Foreign Service Nationals has been identified in practically every Inspector General's report addressing administrative operations at our missions overseas. Our Inspector General specifically identified procurement training for FSNs as a deficiency in its audit of Overseas Procurement Operations issued in January 1991. The audit called for the Office of the Procurement Executive, in concert with FSI, [to] develop a program for training FSN procurement staff. The FSI has subsequently developed a one week course for FSNs in small purchases and requisitions. The pilot program, scheduled for August 16 - 20, 1993 is substantially oversubscribed indicating the significant interest in this type of training.

The current training program which was developed jointly by the FSI and the Office of the Procurement Executive envisions a two-pronged approach. First, FSI will offer a one week course for both FSN and American Family Member (AFM) procurement assistants four times a year. Second, FSI will combine the one week program with a one week contracting workshop provided by the Office of the Procurement Executive. Several posts have offered to host the programs. Initial offerings will be conducted at the Department's Regional Procurement and Support Offices.

In this regard, and in response to the second part of the question, our previous analysis, which remains current today, is that "Some very difficult cost-benefit issues confront the Department as we attempt to provide adequate acquisition training for our American and FSN contracting staff overseas." It is estimated that over 1,000 Foreign Service Americans could be contracting officers at various points in their careers and that over 1,000 FSNs would need contracting training.



CASHIERING AND OTHER FINANCIAL CONTROL ISSUES

Question: It has been a longstanding policy that overseas posts verify cashier accounts monthly or quarterly, depending on the type of cashier and the amount of the cashier's advance. Why does the problem of lack of verification or inadequate verification continue?

Answer: The instances where cashier advances are not verified are usually at small posts, where there is no fulltime financial officer because of funding shortages or temporary staffing gaps. In these cases, cashier monitoring is usually a collateral duty assigned to an American officer who may not have received adequate training.

Question: What monitoring mechanisms does the Department have to ensure post compliance with established verification procedures?

Answer: A copy of the Cashier's Reconciliation Statement (Form 365) is submitted to the servicing United States Disbursing Officer who in turn reviews the statements. In addition, regional roving cashier monitors also conduct cashier verifications. Internal controls duties form part of the written work requirements of officers responsible for government resources. Their handling of internal controls duties is part of their efficiency rating.

Question: Are disciplinary actions taken when responsible Accountable officers are held accountable for losses if they have not performed timely cashier verifications?

Answer: Disciplinary actions resulting from lack of verification are handled by posts and the Department's fiscal irregularities process. American and FSN cashiers/accountable officers have been required to make good on losses resulting from lack of verifications.

Question: Apparently, many of the posts in Latin America are dissatisfied with the financial management support and services provided by State's regional administrative management center (RAMC) in Mexico City. What efforts are underway to strengthen RAMC/Mexico and how does its performance compare to the other RAMCs in Paris and Bangkok?

Answer: RAMC Mexico is steadily improving the service it offers to Latin American posts. During the last year it installed new systems allowing posts to submit payment requests electronically. This innovation and the switch to electronic and express mail for despatch of checks, has improved service to posts. The Latin American Bureau in State and the Agency for International Development have both indicated recently that service is improving. As the newest regional center, RAMC Mexico does not have the same level of expertise or experience as the Bangkok or Paris centers. Mexico is steadily closing the gap between it and the other two centers, however. State has given increased attention to the assignments process to improve the quality of both Mexican and American staff. State is also providing more support, training, and oversight from Washington to Mexico. In addition, Mexico will shortly have to operate only one rather than two accounting and disbursing systems, simplifying the complexity of its workload. With these changes, we expect service levels to continue improving.

Question: The lack of timely reconciliation of bank accounts has been a significant problem in State's financial management system. How many overseas accounts does the Department have and what is the current status of their reconciliations?

Answer: The State Department has approximately 336 overseas bank accounts. As a result of vigorous efforts in the last few years, most are now reconciled. For example, in the latest week, only 26 of 336 bank accounts had not been reconciled within the last two months.

Question: The use of unofficial "cuff records" at the overseas posts is apparently a standard practice, dictated to a large extent by the weaknesses in the Department's financial management systems. Has State established any standards for the posts to use in maintaining their cuff records?

Will unofficial cuff records always be required, or will planned improvements in the overseas financial management system eventually make them obsolete?

Answer: There are no standards, per se, for "cuff records." State is putting a great deal of effort into data cleanup and resolving systems problems that lead to cuff records. The new, Integrated Financial Management System (IFMS), which State expects to start implementing in FY-95, will greatly enhance posts ability to receive official reports. The new system will provide official, automated cuff records at posts that will reconcile automatically with the official records at the regional centers.



United States Department of State

Washington, D.C. 20520

Dear Mr. Chairman:

The GAO report (Management Weaknesses at the U.S. Embassy in Mexico City, Mexico) (GAO/NSIAD-93-88, Job Code 462625) contains recommendations for the Department of State. We are required to respond to you, in compliance with 31 USC 720, on all recommendations made in the report.

The Department of State's responses to the recommendations listed on page three of the GAO report dated February, 1993 are as follows:

GAO Report:

"We recommend that the Secretary of State ensure that the U.S. Embassy in Mexico City, Mexico, takes steps to (1) effectively communicate the importance of management and internal controls to all mission personnel, and (2) establish a formal, proactive system for management improvement and cost control. The system should provide for periodic post reviews and assessments of the Embassy's

- o personal property systems to ensure that inventory losses are minimized and responsible individuals are held accountable for property losses."

Department of State Response:

The post has issued numerous instructions and spent a great deal of time briefing management and employees on the importance of internal controls. It has also taken the following steps to improve controls to reduce inventory losses as well as hold responsible individuals accountable for property losses:

In an effort to reconcile the 1990 inventory, post created ten suspense account locations for use until ultimate disposition of missing property was determined.

The Honorable

John Conyers, Jr., Chairman,  
Committee on Government Operations,  
House of Representatives.

These "suspense accounts" were never "emptied" and were reported as having missing property. In an effort to better resolve inventory discrepancies, post has discontinued this procedure and currently has one suspense account location for the placement of property not found during the inventory process. An item is listed as missing and placed in this location only after a thorough search is made. Property is removed from this location after its disposition is determined, i.e., found, disposed of, etc. At the close of the inventory year, the suspense account location is eliminated.

In 1991, accurate, signed records were not kept that allowed for follow up on "missing" property items. However, post has since initiated a system requiring signed property records for each location.

In an effort to reduce loss and damage to government property in the area of residential inventory, the post is in the process of modifying its check-in and check-out procedures for both transient and permanent quarters. It is noted in the GAO report (page 11) that the Embassy began implementing new control procedures over non-expendable property in May 1992. Spot checks have been done on both expendable and non-expendable property. Frequency of spot checks is being increased and results documented.

The new controls implemented by the embassy have improved their ability to account for non-expendable property. The 1992 inventory reflected a loss of \$38,000 which is less than 1% of the total inventory. To further help account for non-expendable property, one of the post's current part-time intermittent (PIT) positions in housing will be used to improve the controls and monitoring of non-expendable property in temporary and permanent residences. In addition, a U.S. citizen (PIT or American family member (AFM)) will be hired to supervise warehouse operations on site.

In April, 1992, the Department's Property Management Branch reviewed property operations in Mexico City. Although numerous recommendations were made to improve the management of personal property, overall, it was reported that internal controls over the property were excellent. In August, 1992, the post reported that action had been taken on each of fifteen recommendations made by the property specialist.

GAO Report:

- o "...cashiering operations, including the extent that (1) supervisors systematically visit the consulates to monitor cashier operations, (2) cashier supervisors have completed necessary training, and (3) procedures ensure effective monitoring of consular collections and verification of deposits;..."

Department of State Response:

(1) It is true that visits to posts have not occurred as frequently as post would have liked. As of this writing, all posts have been visited within the past two years, and most of them within the last year. Prior to visits to posts, the Budget Officer reviews the supervisors' role with them to ensure that cash counts and controls over collections are properly executed.

(2) The GAO report states "...Embassy has not enforced established requirements for training cashiers or adequately reviewed or monitored cashier operations in Mexico."

The Financial Management Center (FMC) does indeed enforce the Department's requirement that all State Class B Cashiers complete the Foreign Service Institute (FSI) training course. All of them have passed the exam, except for the Guadalajara cashier who is currently awaiting her exam results. The Class B Cashier for the Department of Commerce has not completed the course, nor is she required by the State Department to do so. Nonetheless, the Commerce cashier and her alternate have been given the course material, and their supervisor was given the Supervisors Training Course manuals. Post also insists that alternate Class B Cashiers take the cashier course. A potential alternate in Mexico City has completed the course but must pass the exam, and the alternate cashier in Ciudad Juarez has just sent her exam to the Department.

(3) Procedures are in place that ensure monitoring of consular collections and verification of deposits. Specifically, FMC requires a copy of all unannounced cash counts each month, and spot-checks items listed as being "in-transit" for all cashiers. FMC is visiting posts, and does check to ensure that all collection

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documents are accompanied by deposit slips. FMC Cashier Control Unit (CCU) has telephone contact (weekly in many cases) with each cashier to help resolve outstanding problems. Finally, the Deputy Chief of Mission (DCM) sent a message to all Principal Officers reminding them of their obligation to submit monthly cash verifications.

GAO Report:

- o "...Competition Advocacy Program to ensure that contracting and procurement actions comply with applicable laws and regulations governing competition;..."

Department of State Response:

Post is aware of some instances in the past where lack of full competition was a problem in Mexico City and at some of the consulates. In an effort to ensure that post complies fully with applicable laws and regulations governing competition, post is presently training employees in the use of an automated procurement information system, and is now up-to-date in its reporting requirements. Additionally, the administrative officer is now listed on the post's designation list as the Competition Advocate for the embassy. All competitive awards will go to him to assure that they are the result of free and open competition.

GAO Report:

- o "...housing program to monitor progress in reducing the provision of housing units that exceed State standards;..."

Department of State Response:

The Office of the Inspector General (OIG) has just completed an inspection of post after which OIG recommended that "post implement, no later than June 1, 1993, a housing assignment policy and as promptly as possible, the other major provisions of Airgram A-171 and companion regulations contained in 6 FAM 720."

In response to both the GAO and OIG reports, the post has reconstituted a housing board in accordance with A-171 housing policy and standards. FBO officials

-5-

will assist post in developing a comprehensive housing program in accordance with A-171, and plan initial on-site consultations in April, 1993.

In addition, a manual comparison of the current housing pool with the housing profile was completed for all properties in the Real Estate Management System (REMS) data base as of October 27, 1992. This procedure is now computerized. All properties in REMS have been coded by housing category which will permit production of reports reflecting the current utilization of properties in comparison to the approved profile. This system will also allow post to maintain current lease cost averages for properties in the various A-171 categories. The GSO is aggressively pursuing the objective of reaching parity with the Housing Profile approved by FBO, and must constantly monitor lease approvals and determinations in order to monitor progress towards meeting this objective.

GAO Report:

- o "...personnel system to address (1) the training needs of U.S. and foreign service national employees, and (2) the need for employees hired under personal services contracts."

Department of State Response:

(1) U. S. Embassy Mexico does not have resources for formal training programs; however, it does provide informal training for supervisors in FSN supervision and evaluation and has plans for a formal, group training session. Responsibility for functional training lies with the various agencies in Washington. The Bureau of Finance and Management Policy, as well as the Bureau of Consular Affairs have both provided training to employees in Mexico City. Additionally, the Department of Agriculture and USIS have trained employees in Mexico. The Personnel Office provided training to two employees. Finally, the embassy's Office of Information Management/Automated Services trained embassy employees in the use of E-mail and InfoExpress.

Additionally, the Mission Personnel Office, along with the Operational Office, has conducted detailed reviews of problem areas in order to determine if personnel resources are allocated effectively in accordance with the greatest needs.

-6-

This review process takes the form of periodic review of position descriptions and evaluation reports and, if warranted, goes beyond a paper review to a physical review. A physical review process is now underway in the sub-units responsible for leasing and property management, and encompasses direct hire, personal service contract (PSC), and PIT positions.

While we have not conducted annual formal reviews of all personal services contracts, a comprehensive review is now underway and will be completed by the first of June, 1993. For budgetary reasons, 25 positions, both direct hire and PSC, are currently frozen. The OIG report has recommended that these frozen positions be abolished, and steps are currently being taken to comply.

GAO Report:

- o "In addition, we recommend that the Secretary of State ensure that embassies continue to be required to report to the Department any significant personal property losses and the factors contributing to such losses. To ensure comprehensive oversight of field operations, the Secretary should require that copies of all post property survey board reports about missing property are forwarded to the Department's Property Management Officer in Washington, D.C."

Department of State Response:

The Department's Property Management Branch is responsible for developing and implementing property management regulations and procedures. The Department agrees with GAO that embassies should report significant personal property losses and the factors contributing to those losses, to ensure comprehensive oversight of field operations. Property management regulations have been revised to require this reporting.

Sincerely,

141

Robert A. Bradtke  
Acting Assistant Secretary  
Legislative Affairs



JOHN L. LINTERS R. MICHIGAN

WARREN

ARDOSS COLLENS LINDIS

JOHN ENGLISH CALIFORNIA

JOHN A. WADSWORTH CALIFORNIA

MAI STRAN DELAWARE

JOHN W. NEAL NORTH CAROLINA

JOHN A. LANTOS CALIFORNIA

WALTER D. SWINNEY NEW YORK

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ONE HUNDRED THIRD CONGRESS

## Congress of the United States

### House of Representatives

#### COMMITTEE ON GOVERNMENT OPERATIONS

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON DC 20515-6143

May 4, 1993

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MINORITY—202 225 35 4

The Honorable Warren M. Christopher  
U.S. Department of State  
2201 C Street, N.W.  
Washington, D.C. 20520

Dear Mr. Secretary:

I have received the State Department's response to the U.S. General Accounting Office's (GAO) report on management weaknesses at the U.S. Embassy in Mexico City (GAO/NSIAD-93-88). GAO's work at the Embassy in Mexico City was conducted as part of its overall review of the Department's management of overseas operations, which I requested in February 1992. I want to take this opportunity to express my concern about the Department's management issues in general as well as the problems identified in this report.

The Department's response to the Mexico report indicated that a number of actions have taken place or are planned to deal with management deficiencies affecting the post. Actions such as requiring signed property records, designating a Competition Advocate to ensure competitive contracts, and reconstituting the post's housing board in accordance with housing standards are positive steps to improve controls. However, I am concerned that such actions are largely reactive and do not reflect the aggressive strategy of management improvement recommended by GAO in its recent report.

Specifically, GAO recommended that the Embassy adopt a formal management improvement program to correct longstanding management problems and to provide for continuity as foreign service officers rotate. GAO also suggested that this program include periodic post reviews and assessments of management areas that have been most vulnerable to fraud, waste, and abuse. Additionally, the post should assume the burden of periodically identifying those areas of management that need attention, developing a formal corrective action plan, and ensuring follow-up on deficiencies.

Improving the management of the Department has traditionally been given a low priority, as has been evidenced by years of investigation by the GAO and the Department's Inspector General who have documented the recurring management problems at the overseas posts. This report demonstrates once again the type of weaknesses

The Honorable Warren M. Christopher  
May 4, 1993  
Page 2

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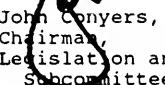
that should not be tolerated. The low priority on accountability appears routine as is shown by the Embassy's own Property Survey Board which reported the following summary:

It is sad that so much property is lost, or unaccounted for, and we feel that those responsible should pay. Unfortunately we have no choice but to sweep it under the rug. Even the record of who is responsible is obscured... We hope that there has been no theft or malfeasance, but... it is the easiest explanation for so great a loss.

I strongly encourage the State Department to adopt a management improvement program at the Embassy in Mexico City, consistent with GAO's recommendations. I believe such a program is necessary to ensure continuous attention to management and cost concerns at the post and to help avoid some of the serious problems experienced in the past. The situation in Mexico is but one example of the attitude which has been all too prevalent in many embassies in the past. I am confident we can work together to change this "business as usual" perspective.

I look forward to your response to this letter, detailing the Department's actions in this regard. Should you have any questions please call me, or have your staff contact Ms. Randy Katsoyannis on the Subcommittee staff at 225-5147.

Sincerely,



John Conyers, Jr.  
Chairman,  
Legislation and National Security  
Subcommittee

United States Department of State

Washington, D.C. 20520

RECEIVED

JUN 14 1993

HOUSE COMMITTEE ON  
GOVERNMENT OPERATIONS

JUN 10 1993

Dear Mr. Chairman:

Thank you for your letter of May 4 urging the Department to adopt a management improvement program at Embassy Mexico City consistent with the GAO report (GAO/NSIAD-93-88) of February 1993.

We have forwarded your letter to Embassy Mexico City and requested that they prepare a formal management improvement program consistent with GAO's recommendation.

Therefore, please consider this letter an interim reply. We will provide you with a copy of the recommended improvement program as soon as possible.

Sincerely,



Wendy R. Sherman  
Assistant Secretary  
Legislative Affairs

The Honorable  
John Conyers, Jr., Chairman,  
Legislation and National Security Subcommittee  
House of Representatives.

## United States Department of State

Washington, D.C. 20520

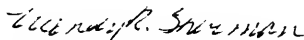


Dear Mr. Chairman:

The Department of State's recent interim reply to your letter of May 4, 1993 stated that a formal management improvement program consistent with the GAO report (GAO/NSIAD-93-88) of February 1993 would be provided by the Embassy in Mexico City.

In this connection, a copy of the Embassy's response dated June 16, 1993 and signed by Ambassador Negroponete is enclosed. The Embassy's strategy of management improvement outlined in the Ambassador's letter is self-explanatory.

Sincerely,



Wendy R. Sherman  
Assistant Secretary  
Legislative Affairs

Attachment:

As stated

The Honorable

John Conyers, Jr., Chairman,  
Legislation and National Security Subcommittee,  
House of Representatives.



EMBASSY OF THE  
UNITED STATES OF AMERICA  
MEXICO

OFFICE OF THE AMBASSADOR

June 16, 1993

Ms. Wendy Sherman  
Assistant Secretary  
Legislative Affairs  
Department of State  
Washington, D.C. 20520-7261

Dear Ms. Sherman:

In a May 4, 1993 letter to Secretary Christopher, Congressman John Conyers expressed concern that our actions in response to a GAO team report on management weaknesses at the U.S. Embassy in Mexico were "largely reactive and do not reflect an aggressive strategy of management improvement recommended by GAO...."

It is our understanding that ARA/EX has drafted an interim response to Congressman Conyers, stating, in essence, that the Embassy would detail actions which demonstrate a strategy of management improvement. The Bureau also suggested that we respond directly to you.

First, I want to emphasize that the Mission management team indeed does have a proactive management philosophy that includes the development of both medium and longer term plans of action that will put in place operating procedures and systems that should eliminate most of the previously identified management weaknesses. Our efforts are not, as the Congressman characterizes, largely reactive (although we, of course, act on management shortcomings identified by others).

The GAO team which visited Mexico City reported on management concerns primarily in three general areas: cashier operations at the Embassy and the Consulates;

procurement and contracting procedures; and control over nonexpendable equipment. We responded in a comprehensive fashion to all the allegations in the report and I am convinced that our response demonstrated that most of the findings of the GAO team were, in fact, a compilation of shortcomings discovered--and acted upon--by my own staff prior to the GAO team visit. For example:

As a result of our 1991 inventory which showed the sizeable loss of approximately \$120,000 in furniture and equipment, we implemented a series of new controls which reduced the loss the following year to \$38,000, with additional improvements expected in upcoming inventories. These actions were taken well in advance of the team's review. Indeed, an April 1992 expert evaluation of the Embassy's Property Management procedures concluded that "overall, internal controls over personal property at Embassy Mexico City are excellent."

Our own Financial Management staff expressed concern over consular cashier oversight well before the GAO team's visit to Mexico. In quoting our own officer's concerns when in fact she was justifying additional oversight visits to the Consulates, the GAO team, in essence, used our own oversight findings in an attempt to prove their allegations of weak oversight. Similarly, the team used an instance of illegal cashier conduct in 1986--a case resolved long ago--in an attempt to allege inadequate cashier oversight at present. In any event, we have satisfied ourselves, through visits to our constituent posts, as well as the OIG visits, that our cashier operations are in good to excellent condition.

As mentioned in our cabled response to the report findings, the reference by our Property Survey Board, in an internal memorandum dated October 22, 1991 drafted by relatively inexperienced officers to the need to "sweep (the lost 1991 property) under the rug" did not reflect the Embassy position on the subject. Their memorandum was not cleared by senior post management. Rather, the Survey Board used this unfortunate choice of words to express the need to recognize our loss and to proceed with the implementation of better controls -- something we have accomplished, as can be seen by the 70% reduction in the loss figure in the 1992 inventory. We are also fully satisfied ourselves that it was by no means the intent of the Survey Board to cover-up any wrongdoing and this has been corroborated by a subsequent special IG investigation which concluded that there had been no malfeasance. Indeed, in the same memorandum from which the above quote was extracted, the Survey Board also stated that they wished to "applaud the

aggressiveness with which (Embassy administrative staff) tackled the problem. We have no fault with present management. Rather, it appears they have already done much to improve the situation."

Post management regularly takes the following actions to plan for, keep apprised of, and act on, issues of concern to management. These steps include:

- daily Country Team meetings;
- weekly meetings of all Administrative Section Heads, where management issues are discussed, actions assigned, and compliance monitored;
- weekly meetings of the Minister-Counselor for Administrative Affairs and the Administrative Officer with the Deputy Chief of Mission, to discuss larger management issues and plan action strategies;
- biweekly Administrative staff meetings where representatives of all other agencies at post have an opportunity to express concerns relating to mission management, and to stay informed about administrative and management issues affecting them.

I have attached our detailed responses to allegations in the GAO report. These responses were previously transmitted to the Department. I am convinced our responses clearly demonstrate that we take our management responsibilities with utmost seriousness, that we have instituted improved management systems and procedures, that we are constantly reviewing our performance, and that we take action when our review of the facts so merit.

Please feel free to call me if you require further information for the Department's response to Congressman Conyers.

Sincerely,

  
John D. Negroponte  
Ambassador

Attachments:  
As stated

cc: ARA/EX - John E. Clark

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UNCLAS SECTION 01 OF 03 MEXICO 03437

FOR W/DGP-HOLMES, APA-ARONSON AND BRINAT, APA/PT-CLARK  
AND APA/PA-PIETERS AND GRAY

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CHRGY: FAAS

APPR7: AMP:JC

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CLEAR: 1)DCM:

2)FMC

3)GSO

4)CCS

5)FMC

6)GSO

7)CCS

8)GSO

V.O. 12356: N/A

TAGS: AMGT, MX

SUBJECT: WASHINGTON POST 2/19 ARTICLE IN "THE NEW

REGIME" TITLED "THE CASE OF THE

MISSING...REFRIGERATORS?"

REF: A) FMP/FM/FPMC/MC JOHN SANDER; RISK ASSESSMENT

- RESULTS AND EVALUATION, DEC. 11, 1992.

- F) A/OPR CHARLES LYONS; PROPERTY MANAGEMENT

- REVIFW, JULY 21, 1992

1. SUMMARY. CHARACTERIZATIONS IN THE GAO REPORT APPEARING IN "THE NEW REGIME" SECTION OF FEBRUARY 16 "WASHINGTON POST" EXAGGERATE PAST ADMINISTRATIVE ERRORS AT EMBASSY MEXICO AND MISREPRESENT THE CURRENT SITUATION WITH RESPECT TO CASHIER OPERATIONS AND PROPERTY MANAGEMENT. THESE AREAS OF ACTIVITY HAVE BEEN THE SUBJECT OF CLOSE EMBASSY MANAGEMENT AND CONTROL IN RECENT YEARS AND WHEN PROBLEMS HAVE BEEN IDENTIFIED, STEPS HAVE BEEN TAKEN TO AVOID REPETITION. THE DEPARTMENT'S EVALUATION OF OUR 1992 INTERNAL RISK ASSESSMENT (REP A) DETERMINED THAT EMBASSY FINANCIAL OPERATIONS ARE SATISFACTORY. WE MAINTAIN CASHER OVERSIGHT WITH ALL CONSTITUENT POSTS ON A CONSTANT AND REGULAR BASIS. IT IS NOTWORTHY THAT THE DRAFT GAO REPORT BUILT AN IMPORTANT PART OF ITS CASE ON ONE INSTANCE OF ILLEGAL CASHIER CONDUCT IN 1996 WHICH WAS RESOLVED MORE THAN FOUR YEARS AGO.

2. AS FOR PROPERTY MANAGEMENT, WE DID IDENTIFY INVENTORY PROBLEMS IN 1991, CAME TO THE CONCLUSION THAT WE HAD NO CHOICE BUT TO WRITE OFF A CERTAIN AMOUNT OF EMBASSY PROPERTY AS A LOSS, AND TO SIGNIFICANTLY STRENGTHEN THE EXISTING COMPREHENSIVE COMPUTER BASED INVENTORY CONTROLS ALREADY IN PLACE. THESE HAVE WORKED VERY WELL SINCE THAT TIME. INDEED, A DEPARTMENT EXPERT'S EVALUATION OF EMBASSY'S PROPERTY MANAGEMENT PROCEEDURES IN APRIL 1992 (REP P) CONCLUDED THAT "OVERALL, INTERNAL CONTROLS OVER PERSONAL PROPERTY AT EMBASSY MEXICO CITY ARE EXCELLENT."

3. REGRETTABLY, IT IS TRUE THAT IN AN OCTOBER 22, 1991 INTERNAL MEMORANDUM WRITTEN BY THE POST'S PROPERTY



SURVEY BOARD. THERE IS A SENTENCE WHICH STATES THAT "UNFORTUNATELY WE HAVE NO CHOICE BUT TO SWEEP IT (THE LOST PROPERTY) UNDER THE RUG." AT THAT TIME THE PROPERTY SURVEY BOARD CONSISTED OF THREE MID-LEVEL OFFICERS FROM CONSULAR, TRAVEL, AND SECURITY UNITS, RESPECTIVELY. THIS INTERNAL MEMORANDUM, ALTHOUGH NOT CLEARED BY SENIOR EMBASSY MANAGEMENT AND BY NO MEANS A REFLECTION OF THE EMBASSY'S POSITION, WAS SHOWN FREELY TO THE GAO AUDITORS AS PART OF OUR POLICY OF FULL COOPERATION IN MAKING FILES AVAILABLE ON THESE SUBJECTS. IN DISCUSSIONS WITH THE ONE REMAINING SIGNATORY OF THIS REPORT (THE OTHER TWO HAVE ALREADY LEFT POST), WE HAVE SATISFIED OURSELVES THAT THE IMPACT OF THIS UNFORTUNATE CHOICE OF WORDS WAS NOT TO SATISFY THE MATTER UNDER THE RUG BUT RATHER TO RECOMMEND THAT WE RECOGNIZE AND WRITE OFF THE PROPERTY LOSS AND TO PROCEED TO THE ESTABLISHMENT AND IMPLEMENTATION OF BETTER CONTROLS. WE HAVE DONE EXACTLY THAT. IMPORTANTLY, THIS VERY SAME INTERNAL SURVEY GOES ON TO SAY, "WE HAVE PROVIDED THE MISSING PROPERTY RECORDS WITH (GSO OFFICIALS RESPONSIBLE FOR PROPERTY MANAGEMENT)... WE ARE CONVINCED THAT THEY HAVE MADE EVERY POSSIBLE EFFORT TO DETERMINE THE ACTUAL DISPOSITION OF THE MANY ITEMS LISTED AS MISSING AND APPRAISE THE AGGRESSIVENESS WITH WHICH THEY TACKLED THIS PROBLEM. WE HAVE NO FAULT WITH PRESENT MANAGEMENT. RATHER, IT APPEARS THEY HAVE ALREADY DONE MUCH TO IMPROVE THE SITUATION."

4. THE EMBASSY TAKES ITS MANAGEMENT RESPONSIBILITIES WITH THE UTMOST SERIOUSNESS AND REGRETS ANY IMPRESSION TO THE CONTRARY WHICH MIGHT HAVE BEEN CREATED BY THIS MISCHIEVOUS "WASHINGTON POST" ARTICLE. A DETAILED COMMENTARY ON THE DRAFT GAO REPORT (WE HAVE NOT SEEN THE FINAL REPORT) FOLLOWS SEPTFL. END SUMMARY.

5. AFTER HAVING READ THE ALLEGATIONS CONTAINED IN THE "POST" ARTICLE AND REVIEWING THE FACTS, WE BELIEVE THAT THE GAO AUDITORS, AND THEREAFTER THE "POST" REPORTER, SELECTIVELY USED INFORMATION PROVIDED TO THEM

BY THE EMBASSY IN AN ATTEMPT TO BUILD A DAMNING CASE WITHOUT CONSIDERING OUR EFFORTS TO SOLVE THE PROBLEMS HIGHLIGHTED. IN A MISSION THIS SIZE AND THIS DISPERSED, SOME ADMINISTRATIVE PROBLEMS WILL ALWAYS EXIST, AND WE WILL NEVER HAVE ENOUGH RESOURCES--EITHER HUMAN OR FINANCIAL--TO TOTALLY ASSURE THAT NO ERRORS TAKE PLACE. IT IS A DEFINITE MISREPRESENTATION TO CHARACTERIZE OUR CASHIER OPERATIONS AS "OUT OF CONTROL," AND ELATANTLY UNFAIR TO HIGHLIGHT THE APPARENT LOSS OF \$120,000 IN U.S. GOVERNMENT PROPERTY WITHOUT ALSO POINTING OUT THAT THE LOSS, IN FACT, MAY NEVER HAVE HAPPENED AND WITHOUT MENTIONING THAT THE EMBASSY HAS TAKEN STEPS TO ASSURE THAT CONTROLS HAVE BEEN IMPLEMENTED TO PREVENT RECURRENCES OF ANY SIGNIFICANT LOSSES. (NOTE: THE EMBASSY OWNS OVER 45.2 MILLION OF NONEXPENDABLE PROPERTY IN MEXICO CITY.)

6. THE ARTICLE FURTHER STATES THAT SOME MEASURES (FOR IMPROVING CASHIER OPERATIONS) HAD NOT BEEN IMPLEMENTED, THAT SOME POSTS (WITHIN THE MISSION) ARE PARTLY VISITED, AND THAT ONE (EMBASSY) AUDITOR WAS QUOTED AS SAYING THAT SHE HAD "A BAD FEELING ABOUT WHAT IS LURKING OUT THERE." WHILE WE HAVE NOT SEEN THE FINAL GAO REPORT, A DRAFT COPY OF THE REPORT PROVIDED IN NOVEMBER NEVER CHARACTERIZED THE CASHIER OPERATIONS AS BEING "OUT OF CONTROL." THE MISSION'S FINANCIAL MANAGEMENT SECTION HAS, IN FACT, TAKEN NUMEROUS STEPS TO IMPROVE CASHIER OVERSIGHT. FOR EXAMPLE, WE HAVE IMPLEMENTED A NEW SYSTEM--NOT RECEIVED BY REGULATION, BUT AS AN EXTRA EFFORT AT IMPROVING INTERNAL CONTROLS--FOR TRACKING CONSULATE COLLECTIONS. NUMEROUS OTHER STEPS HAVE BEEN IMPLEMENTED, MOSTLY PREDATING THE GAO REPORT. AMONG THESE: REQUIRING COPIES OF ALL MONTHLY UNANNOUNCED CASE COUNTS TO BE PROMPTLY SENT TO THE EMBASSY, REQUIRING ALL COLLECTION DOCUMENTS TO BE ACCOMPANIED BY DEPOSIT SLIPS, MAINTAINING CONSTANT COMMUNICATIONS (WEEKLY IN MOST CASES) WITH CONSULATE CASHIERS, AND--MOST IMPORTANTLY--SCHEDULING VISITS TO ALL CONSULATES ON A REGULAR BASIS. WITHIN THE PAST SIXTEEN MONTHS, ALL BUT ONE CONSULATE HAVE BEEN VISITED; THE CASHIER FROM THE OTHER CONSULATE (MEXIPPA) WAS MET AT THE EMBASSY TWICE IN LATE 1992. THE NET RESULT OF THESE EFFORTS IS THAT ALL POSTS SAVE ONE (HERMOSILLO) ARE IN BALANCE. THE HERMOSILLO IRREGULARITY DATES TO 1991; IT WAS FULLY INVESTIGATED AND PROMPTLY REPORTED TO THE DEPARTMENT, WHICH IS RESPONSIBLE FOR MAKING A DETERMINATION IN THE CASE. THE GAO USED AS AN EXAMPLE A CASHIER LOSS IN 1986 (THE LAST PROBLEM INVOLVING A SIGNIFICANT CASE AMOUNT WE HAVE HAD) TO BUILD ITS CASE, IN ADDITION TO A 1989 INSPECTION REPORT (WHICH HAS LONG BEEN SATISFACTORILY CLOSED) AND OUR OWN INTERNAL RISK ASSESSMENT, CONDUCTED IN 1991, WHICH THE DEPARTMENT RECENTLY EVALUATED AND DETERMINED THAT THE EMBASSY'S FINANCIAL OPERATIONS WERE SATISFACTORY. INDEED, THE ALLEGED WEAKNESSES POINTED OUT BY GAO ALSO PROVIDE EVIDENCE THAT FMC IS TAKING ITS OVERSIGHT FUNCTION SERIOUSLY. ITEM FROM GAO DRAFT

REPORT: THE (FMC OFFICER RESPONSIBLE HAS NOT VERIFIED THAT CASHER SUPERVISORS COMPLETED THE TRAINING NECESSARY TO PROPERLY OVERSEE THE CASHERING FUNCTION. REEUTIAL: THIS TRAINING IS NOT REQUIRED BY THE DEPARTMENT; HOWEVER, IN THE SAME PARAGRAPH OF THE GAO REPORT, THE TEAM RECOGNIZES THAT THE EMBASSY HAS CABLED ALL CONSTITUENT POSTS TO ADVISE CASHER SUPERVISORS THAT THEY SHOULD TAKE THIS COURSE. THE EMBASSY HAS ALSO PROVIDED EACH SUPERVISOR WITH THE CASHER COURSE MATERIAL. THE THREE DEFICIENCY EXAMPLES UTILIZED BY GAO IN THE DRAFT REPORT WERE ALL DISCOVERED BY FMC-GRAPHIC TESTIMONY TO THE EFFECTIVENESS OF THEIR OVERSIGHT ACTIVITIES. WE ARE SOMEWHAT AT A LOSS TO EXPLAIN THE STATEMENT, AGAIN IN AN INTERNAL EMBASSY DOCUMENT, BY A SINCE-DEPARTED EMBASSY AUDITOR TO THE EFFECT THAT SHE HAD FEARS ABOUT WHAT MIGHT BE "LURTING OUT THERE." BUT WE WOULD POINT OUT THAT IN THE SAME DOCUMENT SHE HERSELF PROPOSED AND SUBSEQUENTLY IMPLEMENTED, A COMPREHENSIVE VISIT SCHEDULE TO REINFORCE THE OVERSIGHT OF CONSULATE CASHER OPERATIONS. AGAIN, A SITUATION WHERE THE EMBASSY ITSELF IDENTIFIED A POTENTIAL PROBLEM SITUATION AND TOOK STEPS TO RESOLVE IT.

UNCLASSIFIED MEXICO 203437/22

7. WE ACKNOWLEDGE THAT WE HAD SERIOUS DEFICIENCIES IN OUR PERSONAL PROPERTY RECORDS IN 1990 AND 1991, WHICH LED TO THE WRITE-OFF OF NEARLY \$120,000 IN NONEXPENDABLE PROPERTY IN 1991. THIS PROPERTY MAY NEVER HAVE BEEN LOST, HOWEVER. AS WE ADVISED THE GAO TEAM, MANY ITEMS OF PROPERTY MAY HAVE BEEN INCORRECTLY TAGGED TWICE WITH INVENTORY NUMBERS EVEN THOUGH ONLY ONE ITEM EXISTED. THE RESULTANT INVENTORY THEN SHOWED THE NONEXISTENT PROPERTY AS MISSING. AS A RESULT OF A SIGNIFICANT TIGHTENING OF INTERNAL CONTROLS, THE 1992 INVENTORY SHOWS A REDUCTION IN MISSING PROPERTY OF NEARLY 70 PERCENT IN COMPARISON TO 1991 FIGURES. ADDITIONAL STEPS, IN LINE WITH THE EMBASSY'S INTERNAL ASSESSMENTS AND IN COMPLIANCE WITH OUTSIDE GUIDANCE (REF B), WILL REDUCE THIS FIGURE EVEN FURTHER. AS HAVE ALREADY IMPLEMENTED, OR ARE IN THE PROCESS OF IMPLEMENTING, THE NINE RECOMMENDATIONS MADE IN THE LYONS REPORT. THESE STEPS SHOULD LEAD TO A TROUBLE FREE PROPERTY OPERATION.

8. WE WOULD APPRECIATE IT IF YOU WOULD RELAY TO ALL APPROPRIATE OFFICIALS THAT WE AT EMBASSY MEXICO STRIVE FOR AN ERROR FREE ADMINISTRATIVE OPERATION. WE TRUST THAT THE EXAMPLES GIVEN ABOVE ARE ILLUSTRATIVE OF THE STEPS WE HAVE TAKEN TO IMPROVE MANAGEMENT AND INTERNAL CONTROLS HERE OVER THE PAST SEVERAL YEARS. THE SITUATION IS NOT WHAT HAS BEEN PORTRAYED BY GAO AND THE "WASHINGTON POST" ARTICLE. PLEASE LET US KNOW IF YOU HAVE ANY QUESTIONS IN THIS REGARD. A MORE DETAILED COMMENTARY ON THE DRAFT GAO REPORT (WE HAVE NOT YET SEEN THE FINAL REPORT) FOLLOWS SEPTER. MICROPORTE.

BT  
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UNCLASSIFIED MEXICO 003437/03



EMBASSY OF THE  
UNITED STATES OF AMERICA  
MEXICO

*W. John F. T.*  
*(1) (C) file*  
OFFICE OF THE AMBASSADOR  
March 9, 1993

Mr. Richard B. Howard  
Director, Office of Mexican Affairs (ARA/MEX)  
U.S. Department of State  
Washington, D.C. 20520

Dear Dick:

In addition to reviewing final version of GAO report, I have now been briefed on all aspects of subject document by relevant Embassy personnel. This more detailed review substantiates Embassy report contained in Mexico 3437 which concluded that our internal controls are in order and that basically GAO report makes its case by sensationalizing past weakness previously identified and corrected by Embassy itself. Also, by reaching back in some instances to examples as far back as 1986, the report creates confusion between past and present situations; and likewise fails to give sufficient credit to past efforts to remedy problems it itself has identified.

"Washington Post" February 16 suggestion that our cashier operations are "essentially out of control" is especially egregious since our Embassy B&F operation is particularly good and generally recognized as such. Deficiencies mentioned by the GAO in this area have long since been overcome, some even prior to our 1989 inspection.

As to inventories, we did ourselves identify a problem in 1991 requiring the write-off of \$120,000 in non-expendable property - a serious loss to be sure, but still less than the three percent of overall inventory "tolerance" standard of the Department. With new and more effective measures in place our FY-92 non-expendable property reconciliation identified \$38,000 worth of missing property which represents .073 percent of our \$5.2 million inventory, an achievement that has earned praise rather than criticism.

The GAO report does contain some selective quotes from internal Embassy documents which, used out of context, appear damaging. But examination of these memos in their entirety, rather than reflecting mismanagement or malfeasance, reflect an effort to carry out responsibilities conscientiously. The report also raises some perceived deficiencies, such as shortage of training for FSNs, which go beyond standards required by the Department and would appear to reflect a longstanding debate between GAO and Department rather than a criticism specifically directed at post.

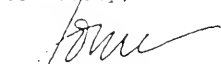
The GAO report also makes some criticisms of a secondary nature. In most instances remedial measures were already underway before the GAO visit. As an extra precaution, however, we have undertaken a meticulous review of every suggestion in the report and where appropriate will take corrective action.

In addition to the above, I attach a copy of a report prepared on February 27 by a Senior Inspector on this matter.

I hope the foregoing information is useful to you. Please let me know if you need anything further.

Warm regards.

Sincerely,



John D. Negroponte  
Ambassador



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